CINAR Corporation

Annual Report 1998

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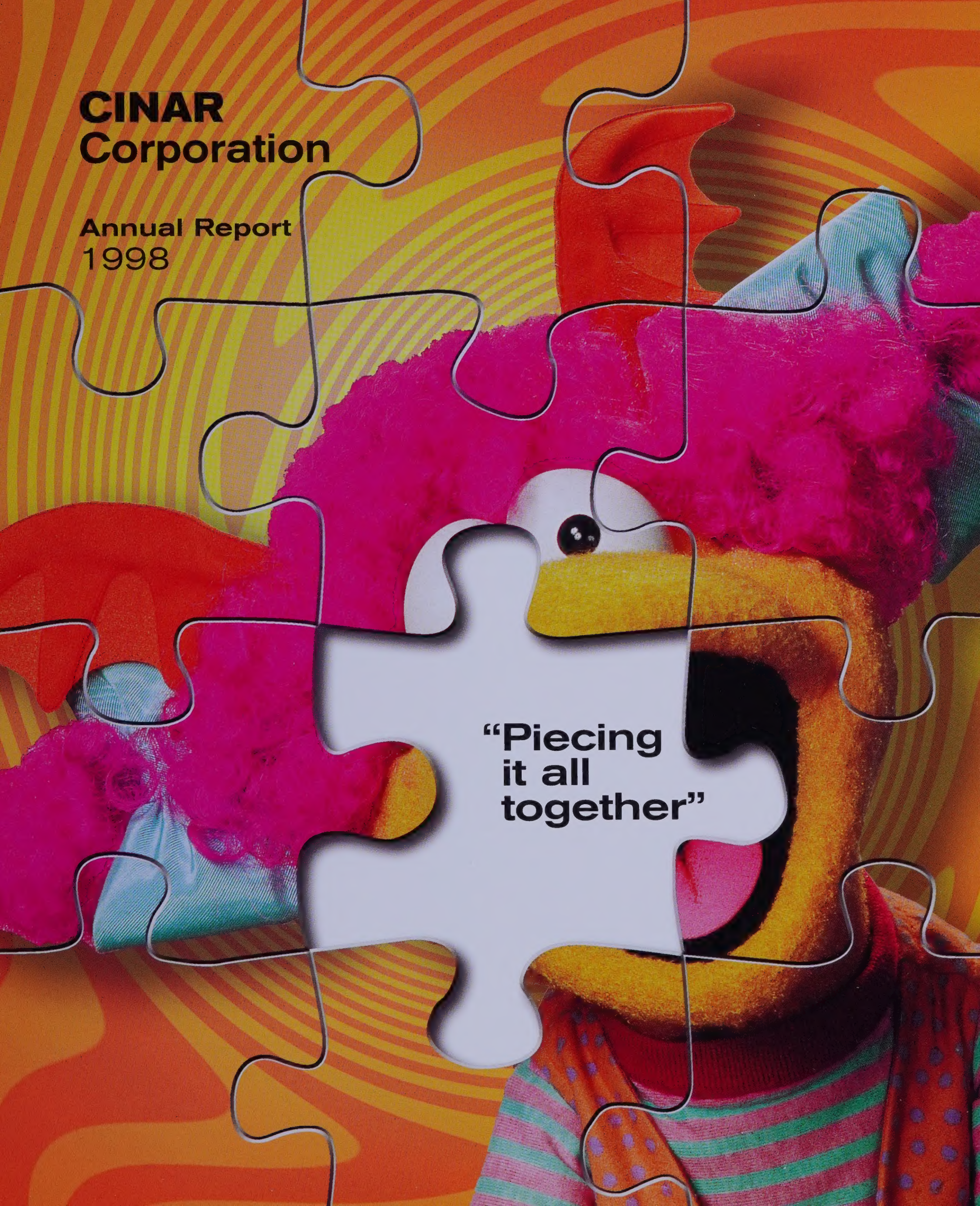

Financial Highlights

Year ended November 30 (in thousands of dollars except number of shares and per share data)	1998	1997	1996	1995	1994
EARNINGS STATEMENT DATA					
Revenues	**150,978**	93,678	57,935	42,107	29,875
Gross profit	**57,385**	30,809	15,512	10,507	7,247
Cash flow from operations	**28,259**	18,772	11,671	6,716	4,877
Net earnings	**21,832**	12,871	8,461	5,257	3,434
BALANCE SHEET DATA					
Working capital	**205,384**	231,965	95,280	47,667	20,185
Total assets	**389,232**	380,381	149,727	67,123	37,106
Shareholders' equity	**335,736**	299,257	123,976	48,306	20,704
Number of shares outstanding	**32,825,629**	26,738,682	21,824,086	17,686,966	14,310,264
PER SHARE DATA					
Cash flow	**0.86**	0.70	0.53	0.38	0.34
Net earnings	**0.67**	0.48	0.39	0.30	0.24
Book value	**10.13**	9.20	4.90	2.45	1.43
SELECTED RATIOS					
Gross profit	**38%**	33%	27%	25%	24%
Net earnings	**14%**	14%	15%	12%	11%

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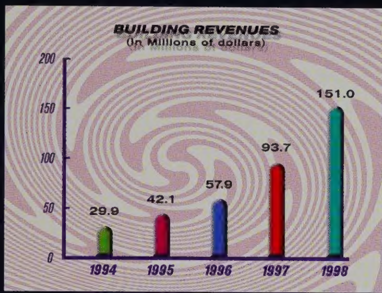
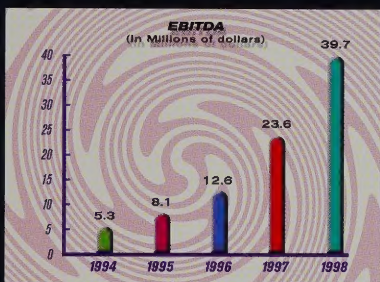
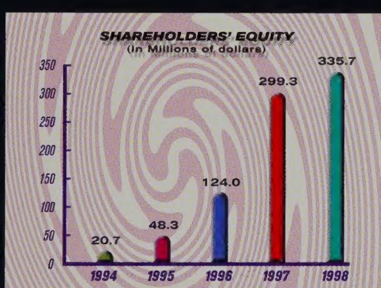
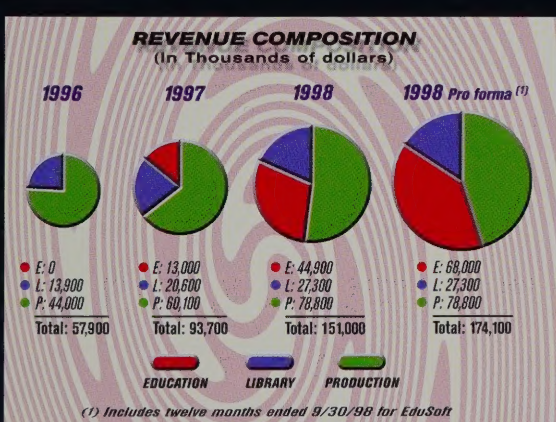
Legal Deposit - National Library of Canada, 1999 - ISSN 1481-8906









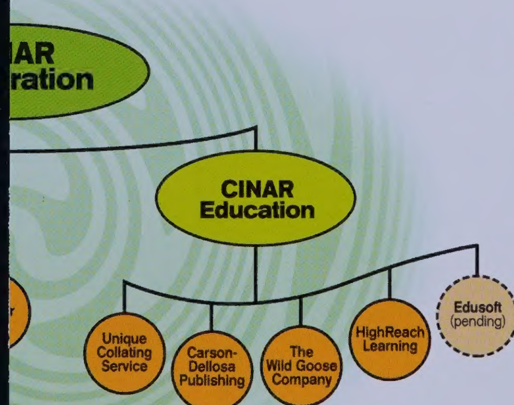
growth strategy. CINAR Education publishes and distributes approximately 2,000 supplemental education products that enhance the classroom curricula and foster continued learning in the home. These products are marketed each year to more than 1.6 million teachers and 350,000 daycare providers in North America from pre-kindergarten to grade eight.

Upon consummation of its pending acquisition of EduSoft Ltd., a developer, publisher and distributor of multimedia education software products, CINAR Education will broaden its product lines and distribution channels. EduSoft's products are distributed to consumers and schools in over 40 countries worldwide.

Through CINAR's diverse programming, licensing and merchandising of entertainment-related products and its array of supplemental education products, the Company intends to appeal to children worldwide, throughout their entire day.

A public company headquartered in Montreal, CINAR's shares are traded on the Toronto and Montreal Exchanges (CIF:A, CIF:B), as well as on the Nasdaq (CINRF) in the United States. As of November 30, 1998, the Company had 429 full-time employees. About 600 additional people are hired on a contractual basis in peak production periods.

all together"



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Gross profit	57,385
Cash flow from operations	28,259
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Working capital	205,384
Total assets	389,232
Shareholders' equity	335,736
Number of shares outstanding	32,825,629
PER SHARE DATA	
Cash flow	0.86
Net earnings	0.67
Book value	10.13
SELECTED RATIOS	
Gross profit	38%
Net earnings	14%

Mission Statement

CINAR is committed to entertaining and educating children and families by producing, distributing and marketing quality, non-violent television programs and education products for the international marketplace. We intend to grow profitably by tapping the full potential of our steadily increasing library assets, by aggressively enhancing the value of our proprietary rights and by capitalizing on the synergies between entertainment and education.

Corporate Profile

CINAR Corporation is an integrated entertainment and education company that develops, produces, markets and distributes high-quality, non-violent programming and supplemental education products for children, families and educators worldwide. The Company operates through two divisions: CINAR Entertainment and CINAR Education.

Over the last 20 years, CINAR Entertainment has become a leading supplier of animated and live-action children's and family programming that it markets and distributes to broadcast, cable and other media outlets worldwide. CINAR Entertainment's productions include the Emmy-award-winning *ARTHUR*™, the top-rated children's television program in the United States, *Are You Afraid of the Dark?*™, *Wimzie's House*™, *Lassie*™, *The Busy World of Richard Scarry*™ and *The Adventures of Paddington Bear*™. As of November 30, 1998, CINAR's library contained 71 titles comprising 1,387 half-hours of programming. During the 1997-98 television season, three CINAR productions were among the top eight programs on television in the United States (including network, cable and PBS), for children aged two through five.

CINAR's expansion into the supplemental education products market is a principal focus of the Company's growth strategy. CINAR Education publishes and distributes approximately 2,000 supplemental education products that enhance the classroom curricula and foster continued learning in the home. These products are marketed each year to more than 1.6 million teachers and 350,000 daycare providers in North America from pre-kindergarten to grade eight.

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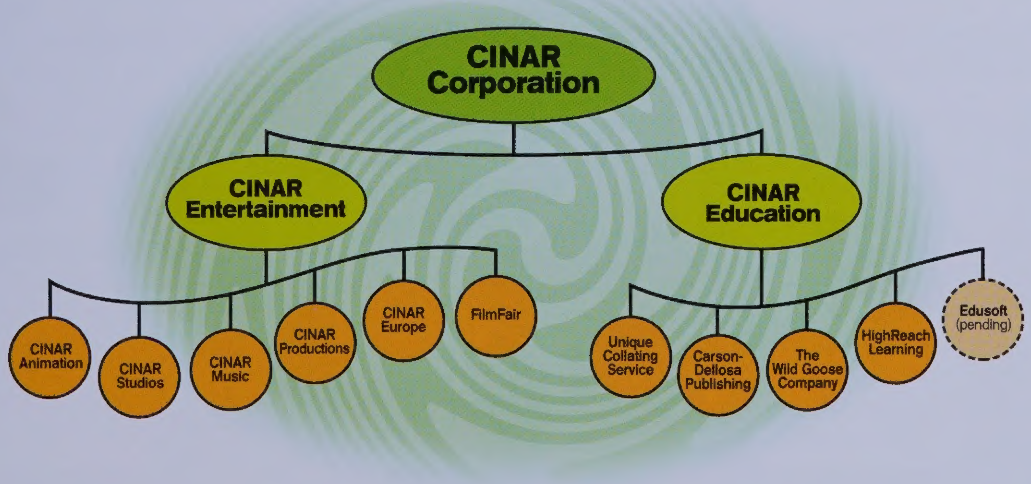
"Piecing it all together"



Year in Review

December 97

CINAR posts 52% increase in fourth-quarter net earnings.

Parents' Choice Foundation honors CINAR with two Gold and two Silver Awards.

January 98

CINAR announces production of 20 episodes of *The Mystery Files of Shelby Woo*™, in association with Nickelodeon.

MVS Multivisión of Mexico acquires additional rights to CINAR series in Spanish, Portuguese and English.

February 98

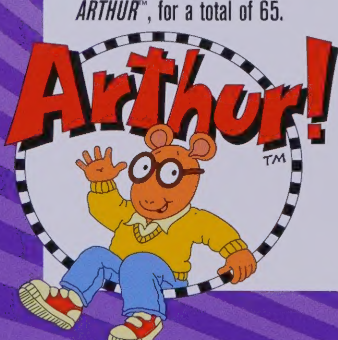
First-quarter net earnings are up 47%.

Sony Wonder licenses U.S. home video and audio rights to *Wimzie's House*™.

March 98

TeleTOON becomes the No. 1 new Canadian specialty channel.

WGBH Boston and CINAR announce production of 15 new episodes of *ARTHUR*™, for a total of 65.

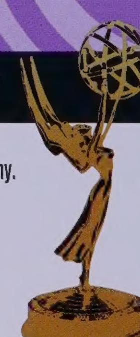


April 98

Shareholders approve 2-for-1 stock split.

CINAR announces production of licensing products based on popular TeleTOON pre-school series *Caillou*™.

May 98



ARTHUR™ wins an Emmy.

Record increase of 70% for net earnings in second-quarter 1998.

June 98

CINAR completes acquisition of HighReach Learning, U.S. publisher of early childhood education programs.

Production begins on animated series *Mona the Vampire*™, co-produced with France's Alphanim.

July 98

Carson-Dellosa launches education product lines based on *Wimzie's House*™ and *The Busy World of Richard Scarry*™.

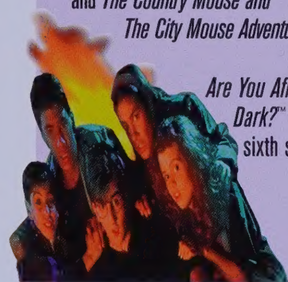
Cameras roll on *Sci Squad* ™, a 13-half-hour live-action science series, to be seen on Discovery Channel in the U.S.

August 98

Record 92% increase in third-quarter net earnings.

HBO acquires *The Adventures of Paddington Bear*™, *The Little Lulu Show*™ and *The Country Mouse and The City Mouse Adventures*™.

Are You Afraid of the Dark?™ starts its sixth season.



September 98

Wimzie's House™ returns to PBS on Ready-to-Learn.

An additional 25 episodes of *Wimzie's House*™ licensed to PBS for a total of 65.

Fox Family Channel licenses *Ripley's Believe It or Not!*™ and *Animal Crackers*®.

October 98

CBS commits to Western epic mini-series *Revenge of the Land*™.

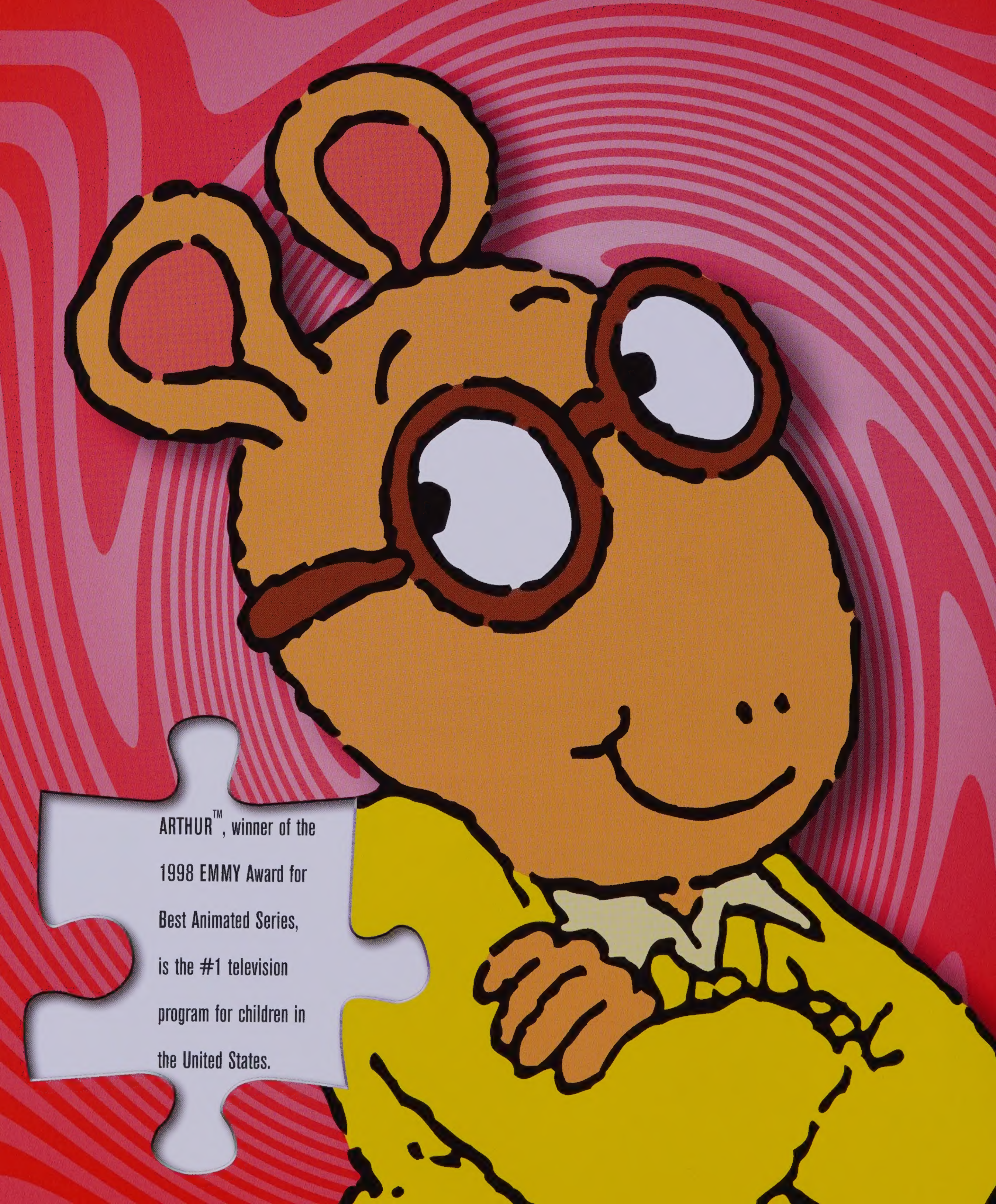
CINAR wins 7 Gemini Awards for *The Sleep Room*™ and *Emily of New Moon*™.

November 98

Record 69.6% increase in 1998 net earnings and 71.5% increase in fourth-quarter net earnings.

Simon & Schuster Interactive will debut two *Wimzie's House*™ CD-ROMs, with DVD versions, at Toy Fair 1999.

Shanghai Animation Film Studio joins CINAR on first official Canada-China co-production for an animated series created in China.


ARTHUR™, winner of the 1998 EMMY Award for Best Animated Series, is the #1 television program for children in the United States.

Message to Shareholders

ENTERTAINMENT AND EDUCATION: FITTING THE PIECES TOGETHER

Nineteen ninety-eight was a milestone year for CINAR, which adopted a new name and a new organizational structure that provides an appropriate platform for the continued growth of its two complementary areas of activity–the creation of high-quality, non-violent television programming and supplemental education products–for children, families and educators worldwide.

A Special Meeting of Shareholders held December 10, 1998 approved the name change from CINAR Films Inc. to CINAR Corporation (*Corporation CINAR* in French). The new corporate identity better reflects the diversification of our operations, which are now aligned in two divisions–CINAR Entertainment and CINAR Education–under the CINAR Corporation umbrella.

Meeting our commitments to shareholders

The Company posted record earnings during 1998. We also succeeded in further increasing revenues generated from CINAR Entertainment's expanding library. And we fulfilled the strategic commitments outlined in last year's message to shareholders, namely: to continue ramping up production in the entertainment sector; and to identify suitable opportunities for acquisitions that would complement our rapidly expanding education group.

A total of 213 half-hour equivalents of entertainment programming were produced during the latest fiscal year, up from 192 in 1997. The expanded 1998 production schedule included additional episodes of established shows such as *ARTHUR™* with WGBH, *The Adventures of Paddington Bear™* and *Lassie™* , as well as new series such as *The Mystery Files of Shelby Woo™*, and the pre-school series *MumbleBumble™*.

The June 1998 acquisition of HighReach Learning represented another step in the execution of CINAR's growth strategy, providing us with added critical mass and broader scope in the U.S. education market.

We also forged ahead with plans to further exploit the rights to CINAR's proprietary characters. Significant licensing and merchandising agreements were signed and we launched the first cross-marketing initiatives between CINAR Entertainment and CINAR Education–an area of opportunity that we see becoming a real focal point, in terms of driving growth.

Entertainment and Education: A great fit

North Carolina-based HighReach Learning specializes in the design, publication and distribution of early-childhood education products for children from pre-school through kindergarten. It complements Carson-Dellosa Publishing, which focuses on kindergarten-to-grade-eight (K-8). Together, these segments of the supplemental education market are part of a $10-billion K-12 market in the United States alone.

Not only do the two education operations complement one another, they are also a great fit with CINAR Entertainment. Utilizing CINAR Entertainment's proprietary characters and programming in CINAR Education's products will serve to reinforce awareness of our characters with children at home and in the classroom–thereby enhancing the market appeal of entertainment and education products alike.

Carson-Dellosa's latest catalogue, distributed to some 1.6 million K-8 teachers across the United States, features teaching aids and related products based on characters from CINAR's *The Busy World of Richard Scarry™* and *Wimzie's House™* television series. And we will soon be introducing similar cross-marketing initiatives with HighReach Learning. *Wimzie's House™* is the only pre-school television series set in a home daycare. This speaks to the reality of millions of children across North America–and underlines the potential of Wimzie licensed products, and their appeal to HighReach's extensive customer base in early-childhood-education.

CINAR, Carson-Dellosa and HighReach Learning also share similar corporate cultures, based on a commitment to provide products and services that incorporate

pro-social values for children. And all three have proven track records, built up over more than a decade in their respective markets.

EduSoft Ltd.
Another piece of the puzzle falls into place

The pending acquisition of education-software specialist EduSoft Ltd., announced subsequent to year-end 1998, represents another significant piece of the strategic puzzle falling into place.

EduSoft is a world leader in the production of software for the teaching of English as a second language. This acquisition not only gives CINAR entry into the fast-growing multimedia segment of the supplemental education market–which has been expanding at a rate of approximately 20% per annum–but also provides access to an established overseas distribution network, encompassing Europe, Latin America and Asia, for CINAR Education's other products. What's more, EduSoft will bring CINAR valuable, in-house expertise in the production of high-quality, interactive software, which can be applied to the development of new products based on CINAR Entertainment's library of proprietary characters and programming. As well, EduSoft's team of software developers will establish an e-commerce and internet marketing and distribution strategy.

Financial highlights

The 1998 initiatives mentioned above helped sustain the positive momentum that has seen CINAR increase its revenues and net earnings at compound annual growth rates of 48.4% and 64.2%, respectively, from 1993 to 1998. Net earnings for fiscal 1998 increased 69.6% to a record $21.8 million, compared with $12.9 million in 1997. Revenues for 1998 totaled $151.0 million, compared with $93.7 million the previous year. CINAR Entertainment accounted for 70.3% of total revenues in fiscal 1998, compared with 86.1% in 1997, while CINAR Education increased its contribution to overall revenues to 29.7% from 13.9%.

Organizational changes

Over the course of the year, we made several changes and additions to the Company's senior management to take into account the new corporate structure and provide the organizational strength we will require to continue growing both CINAR Entertainment and CINAR Education. Chairman Micheline Charest and President Ronald A. Weinberg now share the CEO role as Co-Chief Executive Officers, and Chief Financial Officer Hasanain Panju has taken on additional responsibility as President of CINAR Education.

A leading independent producer of children's programming

A stepped-up schedule of original production for 1998, along with solid ratings success and widespread critical acclaim–including an Emmy-Award for *ARTHUR*™–enabled CINAR Entertainment to solidify its status as one of the leading independent producers of children's programming.

According to Nielsen Media Research, during the 1997-98 television season, three of CINAR Entertainment's productions were among the top eight programs on television in the United States (including network, cable and PBS), for children aged two through five. In September, after only two seasons on air, *ARTHUR*™ became the number-one rated children's series on television in the U.S among children aged two through 11[1].

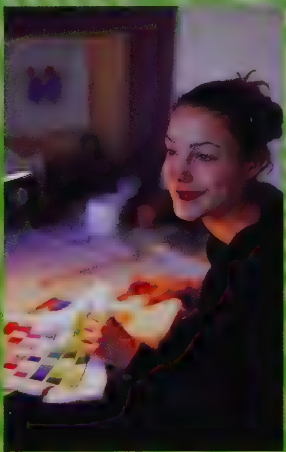
Home Box Office (HBO), the U.S. pay-cable network, became a major outlet for CINAR programming during 1998, when it acquired the rights to air three of the Company's animated series: *The Adventures of Paddington Bear*™; *The Country Mouse and The City Mouse Adventures*™; and *The Little Lulu Show*™. Meanwhile, two other CINAR productions, *Animal Crackers*® and *Ripley's Believe It or Not!*®, have been licensed to the new Fox Family Channel. And the Company continues to be the leading supplier to Nickelodeon, which is collaborating with CINAR to pro-

[1] SOURCE: NTI/NHI week of September 7, 1998. (Does not include specials.).

duce new episodes of the live-action series *The Mystery Files of Shelby Woo™*. CINAR and Nickelodeon have already collaborated successfully on the popular pre-school show *The Busy World of Richard Scarry™* and on the "tween" favorite *Are You Afraid of the Dark?™*. In Canada, *Caillou™*, has become one of the signature shows on both the English and French-language networks of TeleTOON, Canada's all-animation cable channel, which is 20% owned by CINAR. This pre-school series, based on a long-time favorite of Quebec children's literature, has also been sold in more than 70 countries, including France, Italy and Spain.

During 1998, we delivered 10 animation and three live-action series, as well as three family films, representing 213 half-hours. CINAR's library now contains 1,387 half-hours. Meanwhile, cameras rolled on *Sci Squad™*, CINAR's first science-oriented show which will air on Discovery Channel in the U.S. Production also began on *Who Gets the House?*, a feature-length, comedic drama, and on the *Revenge of the Land™* mini-series, a western epic that will air on CBS in the United States and on CBC in Canada.

CINAR Entertainment's production slate for 1999 is the Company's most ambitious yet, with more than 360 half-hour episodes–encompassing 20 different series, a family film and a mini-series–committed for delivery in 1999-2000. The total production budget exceeds $185 million, a 48% increase over the 1998-99 production budget of $125 million.



Since its inception in 1997, TeleTOON has consistently been ranked among the top five Canadian cable networks. TeleTOON has achieved approximately 50% and 80% cable subscriber penetration rates for its English and French-language channels respectively. As long as CINAR maintains an ownership interest in TeleTOON, we are entitled to provide up to 25% of TeleTOON's programming on an annual basis. After only a year in operation, we are pleased to announce that TeleTOON is very profitable and that CINAR realized $480,000 in earnings on its investment.

International partnerships – new markets

The forging of new international partnerships and the opening of new markets are key elements of CINAR's strategy, providing both additional sources of financing and international exposure for CINAR programming and licensed products. The Company attempts to defray at least 80% of the total production costs of any given project prior to commencement of production. International production revenues continue to represent over 50% of total production revenues and sales outside the U.S. and Canada have more than doubled from 1997 to 1998.

Accordingly, CINAR Entertainment continued to pursue distribution and co-production opportunities in Europe, Latin America and Asia during 1998, enjoying particular success in China.

In November 1998, we signed an agreement with Shanghai Animation Film Studio, a subsidiary of Shanghai TV, China's second largest broadcasting company, to co-produce 52 10-minute episodes of a new animated series entitled *Rumble & Growl*. Shanghai Animation developed the concept for this series, which will be distributed internationally by CINAR and represents the first official Canada-China co-production for an animated series created in China.

We followed up in January 1999 with the signing of a second major Canada-China co-production. The agreement is with China Central Television (CCTV), the largest and most important Chinese television broad-

caster, and entails production of 52 half-hour episodes of *Journey to the West, Legends of the Monkey King*, a new animated series to be based on one of the most beloved classics of Chinese literature.

CINAR has been extremely successful in producing programs whose appeal transcends language and cultural barriers, particularly in animation. We now supply programming in 30 languages to some 150 countries.

Puzzles and videos in the making

The exploitation of proprietary rights to CINAR characters is another strategic priority. We are pleased to report that we made a significant start during 1998 in unlocking the revenue potential of new properties through licensing and merchandising alliances with leading manufacturers and marketers of toys and other consumer products. For *Wimzie's House*™, we have partnered with Eden, LLC, for plush toys, Learning Curve International for wooden toys and games, Sony-Wonder for videos, and with Simon & Schuster Interactive for CD-ROMs and DVDs, in addition to Carson-Dellosa for education products.

Caillou™ also has a number of promising licensing agreements keyed initially to the Canadian market, including bedding, apparel and games, as well as two French-language home videos that achieved "diamond" status (100,000 units per title) within three months of their debut and became Sony Canada's fastest-selling titles ever.

CINAR has entered into a new alliance with Viacom Consumer Products, the licensing division of Paramount Pictures, that will broaden the merchandising, education and entertainment rights associated with the stories and characters created by best-selling author Richard Scarry. Under the terms of the agreement, CINAR's role is expanded from producer of the animated series, *The Busy World of Richard Scarry*™, to a licensing and entertainment partner with Viacom Consumer Products and The Richard Scarry Corporation.

Library growth

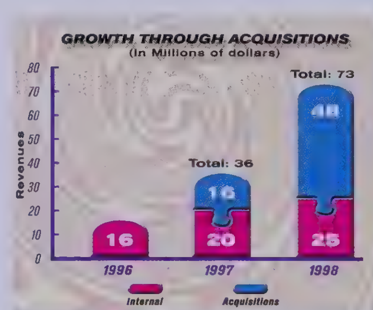
CINAR's expanding library remains the Company's single most important asset, encompassing 71 titles and 1,387 half-hours of original programming as of year-end 1998, along with associated production and ancillary rights. This is up from 1,174 half-hours a year earlier, and makes for a compound annual growth rate of 33.6% since 1994. Library revenues increased 32.5% to $27.3 million during fiscal 1998, and now represent 25.7% of total entertainment revenues.

Another development subsequent to year-end is the acquisition of 12 feature length movies from Leucadia Film Corporation in February 1999, adding 36 half-hours of quality family programming to the CINAR library.

Strategic outlook

The market fundamentals for CINAR's core activities remain extremely positive, with steadily increasing global demand for quality, non-violent children's programming and continued growth in the supplemental education sector.

With the organizational changes implemented during 1998, the stage is set for further profitable expansion of both CINAR Entertainment and CINAR Education. Future growth will come both via acquisitions and through internally generated "organic" growth. We plan to introduce some exciting new offerings, including new-technology products. And prompted by the success of TeleTOON, which has provided CINAR Entertainment with a significant new distribution outlet, we are exploring other similar opportunities.



Our objective is straightforward–to be a leading international provider of children's programming and supplemental education products.

To achieve this objective, CINAR seeks to:

- Continue increasing its core production and distribution of programming through co-production agreements and other strategic alliances;
- Grow its library of proprietary characters and programs by continuing to create and acquire high-quality properties with international appeal;
- Further expand its supplemental education business through internal growth and the acquisition of education companies that have established distribution channels in key geographic markets worldwide, or products that complement CINAR's current lines and could benefit from our proprietary characters; and
- Create new revenue sources by licensing, merchandising and otherwise exploiting the proprietary rights associated with its entertainment and education products.

Internet websites

Wimzie's House™, *ARTHUR™*, *Caillou™ and Paddington Bear™* each have their own "kid-friendly" websites that target the K-8 market. These interactive sites feature a variety of games and other activities.

CINAR also has a corporate website and several websites dedicated to CINAR Education that feature HighReach Learning and Wild Goose products. Carson-Dellosa will have its own website on line later this year. In fiscal 1999, Edusoft will increase our presence on the Internet and lead CINAR to a new on-line distribution system with e-commerce.

Acknowledgements

We would like to welcome Sharon and Michael Mayberry and Kathy and Phillip Kelly, along with the rest of the HighReach Learning team, to the CINAR family. We are also pleased to welcome a new member to the Board of Directors, Senator Jack Austin, who joined this past December, increasing the number of members from eight to nine. And, of course, we are grateful to our other fellow board members for their continued guidance and support.

Finally, we want to thank all those dedicated men and women throughout CINAR who share our vision–and whose hard work enables us to consistently deliver the quality entertainment and education products that have captured the hearts and minds of children everywhere.

We appreciate your continued support and dedication.

Micheline Charest
Chairman and Co-Chief Executive Officer

Ronald A. Weinberg
President and Co-Chief Executive Officer

Paddington Bear™ is now 50 years young and starting a new life in his own fully animated TV series.

Review of Operations

PIECING IT ALL TOGETHER
CINAR ENTERTAINMENT AND CINAR EDUCATION

A significant increase in entertainment production, a second major acquisition in the education sector, and an expanding stable of popular characters and successful television programs like *ARTHUR*™; *Wimzie's House*™, The *Adventures of Paddington Bear*™ and *Caillou*™ were among the highlights of fiscal 1998, as CINAR continues piecing together the foundation of an integrated entertainment and education company with global reach.

Developing branded identities for CINAR Entertainment's proprietary characters and programs – and combining those brand identities with CINAR Education's products – will enhance the market appeal of all CINAR's products. Through CINAR's diverse programming, its licensing and merchandising of entertainment-related products and its array of supplemental education products, the Company intends to appeal to children at home and in the classroom.

Organizational changes

A Special Meeting of Shareholders held December 10, 1998 approved a name change from CINAR Films Inc. to CINAR Corporation. The new name better reflects the diversification of the Company's activities, which are now aligned in two divisions–CINAR Entertainment and CINAR Education.

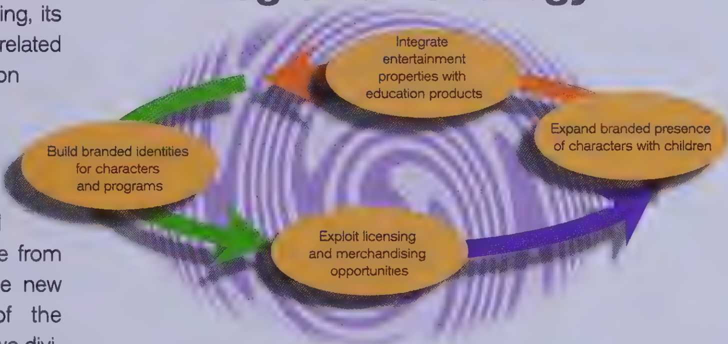
As well, the responsibilities of several members of CINAR's senior management team were realigned to take into account the new corporate structure and ensure that the Company has the requisite organizational strength to maintain its positive momentum. Chairman Micheline Charest and President Ronald A. Weinberg now share the CEO role as Co-Chief Executive Officers, while Chief Financial Officer Hasanain Panju has taken on additional responsibility as President of CINAR Education Inc.

Three new appointments were made. Jeffrey Gerstein, C.A. has been appointed Vice-President, Finance. Before joining CINAR, Mr. Gerstein was a partner at Ernst & Young, in taxation. Kelly Elwood has joined CINAR as Vice-President, Marketing. Before joining CINAR, Ms. Elwood worked at Mattel and Lipton Canada in licensing, marketing, project management and brand management. Daniel Tierney has been promoted to Vice-President, Business Development. Prior to his appointment, Mr. Tierney held positions as Director, CINAR Music, and Director, Business Affairs.

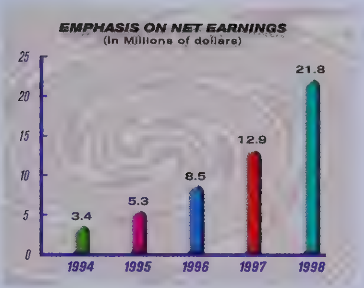
Putting the pieces together

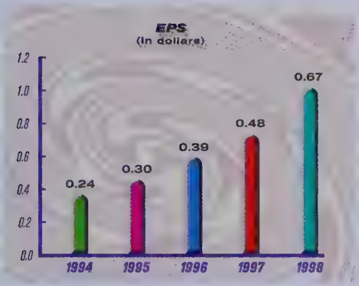
CINAR began putting the entertainment and education pieces together, with the successful introduction of proprietary characters from several of its internationally renowned children's television programs into the product lines of CINAR Education including *The Busy World of Richard Scarry*™. And from producer of the animated series, CINAR's rights will now extend to all entertainment and education categories including new programming, home video and music, as well as merchandising and licensing.

Integration Strategy




Are You Afraid of the Dark?™
is now starting its 6th
season on Nickelodeon in
the United States.





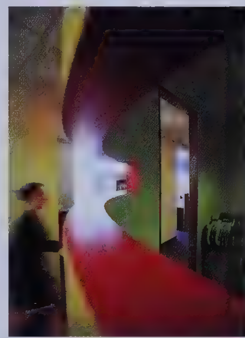
Record earnings

For fiscal 1998, revenues increased 61.2% to $151.0 million from $93.7 million in the previous year. CINAR Education accounted for 29.7% of total revenues for the year. EBITDA reached $39.7 million, an increase of 68.3%, compared to $23.6 million, reported in the 1997 period. Net earnings for fiscal 1998 increased 69.6% to $21.8 million, or $0.67 per share, compared with $12.9 million, or $0.48 per share, in fiscal 1997.

Stock split

Shareholders attending the Annual and Special Shareholders Meeting on April 23, 1998 approved a two-for-one split of CINAR's Multiple Voting Shares and Subordinate Voting Shares, which took effect May 4, 1998. The Company also received approval to alter the voting rights attached to the Multiple Voting Shares, so that such shares–as a class–would continue to account for the same proportion (70.8%) of overall votes as was the case on April 23, 1998. This enables the Company to continue to qualify as a Canadian-controlled corporation for production financing. As a result, the Multiple Voting and Subordinate Voting Shares were redesignated as "Variable Multiple Voting Shares" and "Limited Voting Shares", respectively.

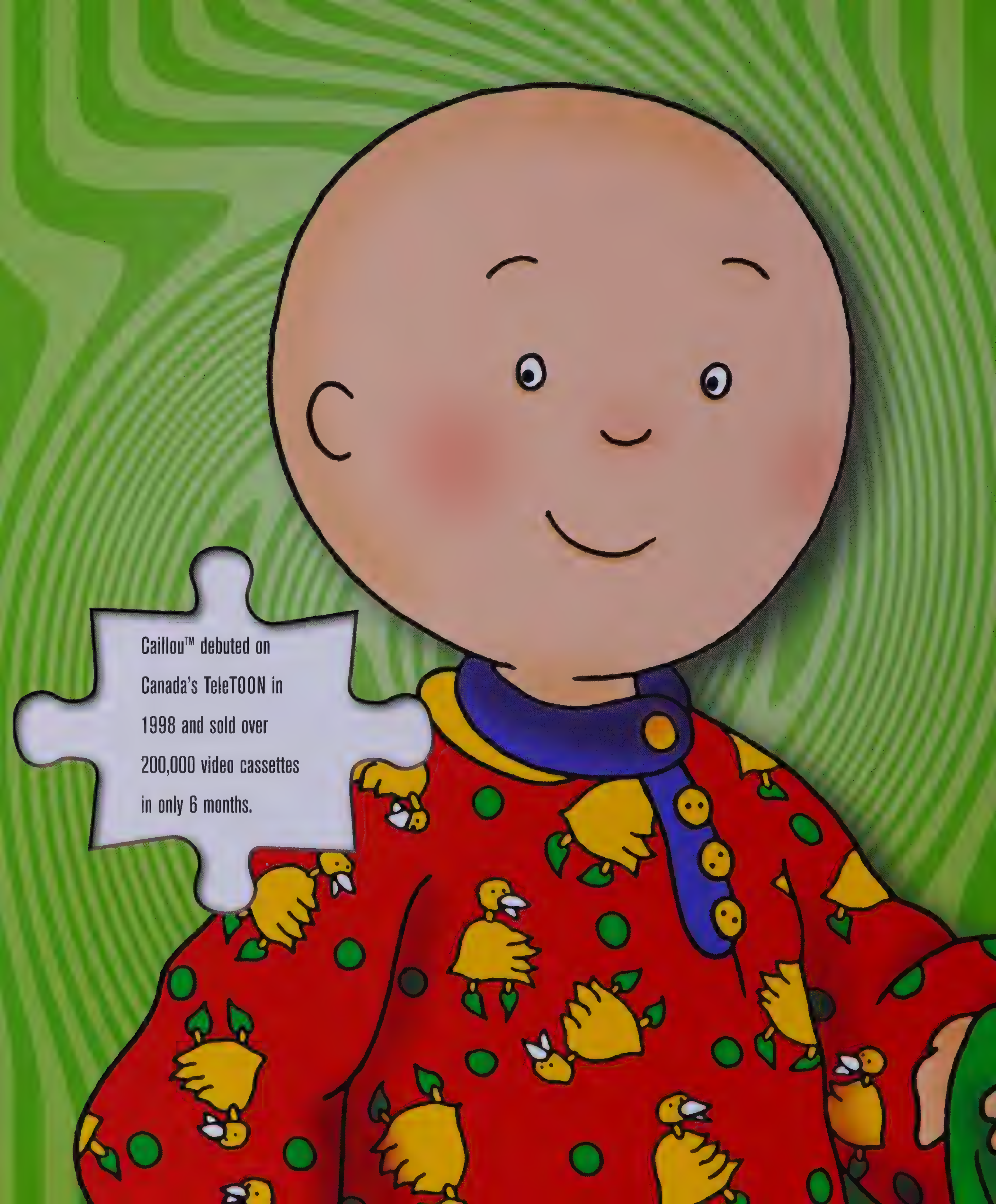
Year 2000 issue



Many existing computer programs were designed and developed without considering the upcoming change in the century, with the result that some date-sensitive programs may recognize a date using '00' as the year 1900 rather than the year 2000. This could lead to the failure of computer applications or create erroneous results by or at the Year 2000. The Year 2000 issue is a broad business issue, the impact of which extends beyond traditional computer hardware and software to the possible failure of automated systems and instrumentation, including equipment used by the Company and third parties with which the company does business.

To address this issue, CINAR has undertaken efforts to identify, test and modify or replace any systems that may not be Year 2000-compliant. The Company believes that it has substantially completed the process of assessing the potential impact on its own operations, and expects to be compliant with respect to all its significant business systems and equipment by September 1, 1999. CINAR also has been making inquiries to third parties as to their preparedness in this respect and, based on the responses received, will decide to what extent, if any, a contingency plan might be required.

To date, the Company has received only preliminary feedback from such third parties, so there can be no absolute assurance that there will not be any disruptions that might adversely affect CINAR's operations. However, the Company does not anticipate any serious disruptions to its business and believes that the costs associated with achieving Year 2000 compliance will not be material.



Caillou™ debuted on Canada's TeleTOON in 1998 and sold over 200,000 video cassettes in only 6 months.

CINAR Entertainment

CINAR Entertainment's productions include the Emmy-award-winning *ARTHUR*™-the top-rated children's television program in the United States-*Are You Afraid of the Dark?*™, *Wimzie's House*™, *Lassie*™, *The Busy World of Richard Scarry*™, *The Adventures of Paddington Bear*™, *Caillou*™, *The Little Lulu Show*™, *Emily of New Moon*™ and *The Country Mouse and the City Mouse Adventures*™. They are seen daily on leading broadcast and cable networks in Canada, the United States and more than 150 other countries.

Licensing and Merchandising

CINAR's marketing efforts are focused on creating branded identities for the Company's proprietary characters and programs. CINAR believes that such branded identities will lead to additional high-margin revenue streams from television, home video, music and licensing and merchandising. CINAR views its entry into the supplemental education market as an integral part of this marketing strategy.

In 1998, the Company's proprietary characters and programs were licensed to manufacturers and distributors including Hasbro, Sears, Eden Toys, Aladdin, Milton Bradley, Microsoft, Kraft, Quaker Oats and Kellogg for use in such products as dolls, pre-school toys, lunch-box kits, desk accessories, stationery items, board games, clothing, comics and CD-ROMs, as well as for consumer promotions. In addition, Carson-Dellosa is manufacturing and distributing a line of education products from CINAR.

Revenues from the licensing and merchandising of products increased to $1.5 million in fiscal 1998 from $0.6 million in fiscal 1997. This growth is principally attributable to the Company's ownership interest in established properties like *ARTHUR*™, *Paddington Bear*™ and *Are You Afraid of the Dark?*™. The Company is also introducing both classic and new characters from its television series such as *The Little Lulu Show*™, *The Busy World of Richard Scarry*™, *Wimzie's House*™ and *Caillou*™.

CINAR has recently created a separate marketing department to facilitate the exploitation of these rights.

In fiscal 1999, the Company will focus on licensing activity with respect to *Wimzie's House*™, one of the top-rated pre-school programs in Canada and the United States. The Company owns all of the licensing and merchandising rights to *Wimzie's House*™ which has a growing list of licensees including Eden Toys for

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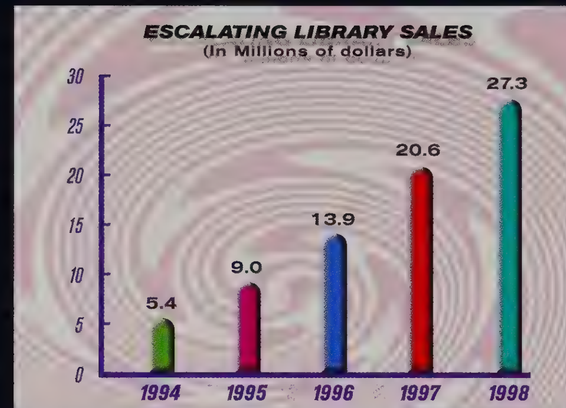
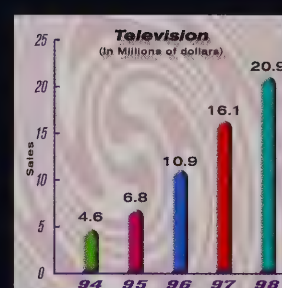
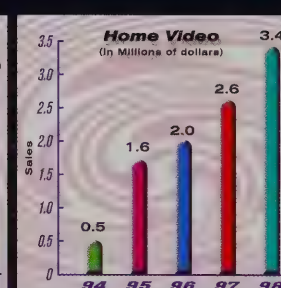
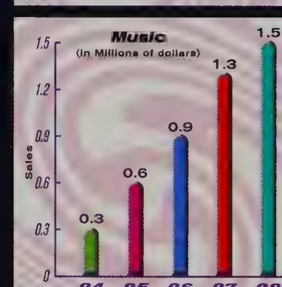
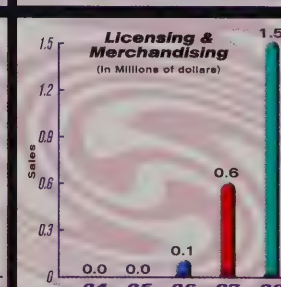










CINAR ENTERTAINMENT HAS ALL THE PIECES IN PLACE

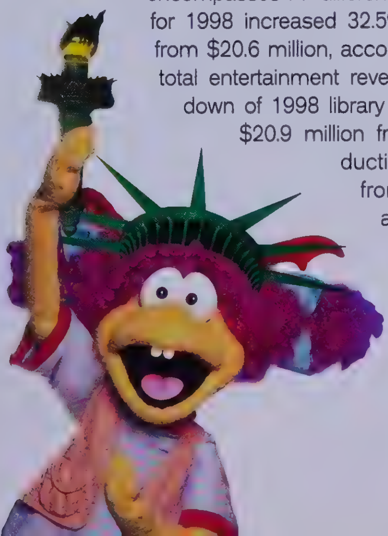
Top programming, an extensive library, a worldwide network of strategic alliances and a targeted marketing strategy

A steadily expanding library

CINAR Entertainment benefits from a steadily expanding library of programming as well as the rights to the associated characters, which the Company believes have lasting value, because children and family programming can be resold continually to new generations of audiences around the world. Animation characters, in particular, appeal to audiences of all cultures and languages, making CINAR's animated programs easily marketable on an international basis.

The library generates high-margin sales and distribution opportunities, and CINAR Entertainment is leveraging this valuable asset to generate additional sources of revenue through the exploitation of rights relating to: home videos; music; the licensing and merchandising of books and CD-ROM games (such as *Are You Afraid of the Dark*™ and *Wimzie's House*™); and education products.

CINAR Entertainment's library of television programs totaled 1,387 half-hours as of November 30, 1998, compared with 1,174 half-hours a year earlier, and now encompasses 71 different titles. Library sales for 1998 increased 32.5%, to $27.3 million from $20.6 million, accounting for 25.7% of total entertainment revenues. The breakdown of 1998 library revenues includes $20.9 million from television production, $1.5 million from merchandising and licensing, $3.4 million from video and $1.5 million from music publishing.



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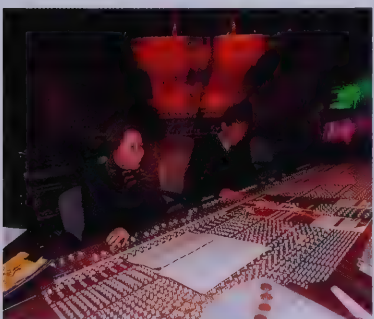
The Classic Comic Star with curls, Little Lulu®, continues to delight audiences in 156 countries in her animated series.

plush toys, Learning Curve for wood toys, Simon & Schuster Interactive for CD-ROMs and DVDs, as well as Sony for video and audio products.

CINAR's new alliance with Viacom Consumer Products, the licensing division of Paramount Pictures, broadens the merchandising, education and entertainment rights associated with the stories and characters created by Richard Scarry. This will expand CINAR's role to a licensing and entertainment partner with Viacom Consumer Products and The Richard Scarry Corporation.

CINAR Music

CINAR Music, which exploits the rights to the music and songs produced by the Company, represents another expanding stream of revenue. All of CINAR's programs feature original music, ranging from orchestral underscores to children's songs. As publisher of the original music featured in its programming, the Company is entitled to royalties each time an episode is aired anywhere in the world, a video is sold or rented, or an episode is mechanically reproduced for broadcast.



As of year-end 1998, CINAR Music held the rights to over 380 original songs, and orchestral scores. Its revenues increased from \$1.3 million in 1997 to \$1.5 million in 1998.

In 1998, new music products included: with Sony Wonder Canada, two *Wimzie's House*™ book and tape packages and "Les Chansons de *Caillou*™"; with PolyGram, U.S., a first album for *The Busy World of Richard Scarry*™; and the "*ARTHUR*™ and Friends" CD, a WGBH Boston and CINAR joint effort.

Distribution

CINAR Entertainment's distribution division sells television programs to outlets throughout Canada and the United States, as well as in more than 150 other countries around the world, through its sales offices in Montreal, (Canada), London, (England), and Shannon, (Ireland). Over the past year, CINAR's international production revenues increased by 65.6%, to \$67.2 million, accounting for more than 50% of total production revenues. The U.S. market accounted for 29.4% of 1998 production revenues. In 1998, CINAR concluded several multi-series agreements with TVO and Société Radio-Canada in Canada. In Europe, CINAR furthered its relationship with ITV, the United Kingdom's largest network, which has purchased all 39 episodes of *The Adventures of Paddington Bear*™ as well as all 26 episodes of *The Wombles*™, both of which will continue to be delivered in 1999-2000.

TeleTOON is a hit

TELETOON
The Animation Station ≈ La station de l'animation

TeleTOON, which operates two 24-hour, all-animation cable television channels in French and English, has quickly become one of Canada's leading specialty cable outlets–and an important distribution breakthrough for CINAR. Launched in late 1997, the specialty channel provided CINAR Animation with its first direct-to-end-user outlet. As a co-founder and 20% shareholder, CINAR is entitled to provide up to 25% of TeleTOON's programming on an annual basis. Since its introduction, TeleTOON has achieved approximately 50% and 80% cable subscriber penetration rates in English Canada and French Canada, respectively. TeleTOON has returned to CINAR \$480,000 in earnings on its investment after only one year in operation.

Strategic alliances

CINAR Entertainment is a major supplier of children's television programming to leading broadcast and cable networks worldwide. They include: Nickelodeon (in the U.S., Europe and Latin America); PBS, HBO,

Discovery Communications, Showtime and Fox Family Channel in the United States; ITV, Channel 5 and the BBC in the United Kingdom; Ravensburger, ZDF, RTL, Der Kinderkanal and the Kirch Group in Germany; TF1, Canal J, France 2, France 3 and M6 in France; Fuji Television and NHK in Japan; and MVS Multivisión, Televisa, and Televisión Azteca in Latin America. Aside from TeleTOON, Canadian television outlets carrying CINAR Entertainment programming include: The Canadian Broadcasting Corporation, The Family Channel, WIC, YTV and CTV in English, as well as the French-language networks Société Radio-Canada and Télé-Québec.

Many of these distribution outlets also partner with CINAR to provide production financing for new television programming. Such alliances help the Company meet its commitment to shareholders to minimize risk by deferring at least 80% of production costs prior to filming. Furthermore, Canadian co-productions with partners in Europe and many other overseas markets generally meet the "local content" requirements of broadcasting regulators.

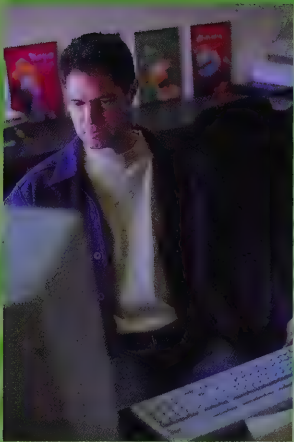
CINAR's newest co-production partners include Shanghai Animation Film Studio, a subsidiary of China's second largest broadcasting company, and China Central Television, China's largest television network.

1998 Production highlights

Patricia Lavoie, Vice-President, Live-Action, Production & Development

In fiscal 1998, CINAR Entertainment produced 10 animated series, for a total of 132 half-hour equivalent episodes, seven of which continue to be produced in 1999. Animation deliveries for fiscal 1998 included: 25 episodes of *ARTHUR*™, which is in its fifth year of production with WGBH Boston; four episodes of *Caillou*™, TeleTOON's popular preschool series; 10 episodes of *The Country Mouse and City Mouse Adventures*™, a Reader's Digest presentation; 20 episodes of *Animal Crackers*®; 23 episodes of *The Adventures of Paddington Bear*™ and nine episodes of *The Wombles*™, a series co-produced by CINAR and United Media.

CINAR delivered three live-action series in 1998, for a total of 72 half-hour-equivalent episodes, two of which continue to be produced in 1999. Live-action deliveries for fiscal 1998 included: 26 episodes of *Lassie*™, 15 episodes (30 half-hours) of *Emily of New Moon*™; and 16 episodes of *The Mystery Files of Shelby Woo*™, a "whodunit" series that airs on Nickelodeon. In addition, the Company delivered three



new family films: *Un Hiver de Tourmente*™, based on a best-selling book by Québec author *Dominique Demers*; *Sally Marshall is Not an Alien*™, co-produced by CINAR and Infinity pictures (Australia); and *The Ghosts of Dickens' Past*, a historical drama set in turn-of-the-century England.

1999 Production

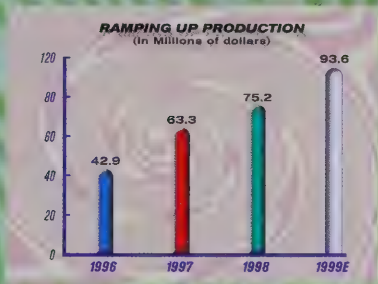
The production slate for 1999 is the Company's most ambitious yet, with more than 360 half-hour episodes–encompassing 20 different series, a family film and a mini-series–committed for delivery in 1999-2000. The total production budget commitment exceeds $185 million.

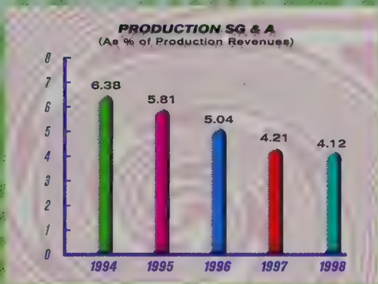
In 1999-2000, CINAR will produce 16 animated series, nine of them continuing from previous years, for a total of 305 half-hours. These include new episodes of *ARTHUR*™, *Animal Crackers*®, *The Country Mouse and the City Mouse Adventures*™, The *Little Lulu Show*™, *MumbleBumble*™, *Patrol 03*™, *The Adventures of Paddington Bear*™ and *The Wombles*™, as well as *Papa Beaver Storytime*™, last delivered in 1995. New animated series include *Ripley's Believe it or Not!*®, *Journey to the West, Legends of the Monkey King*™, produced with China Central Television, China's largest television network, as well as *Mona the Vampire*™, based on a series of best-selling children's books.

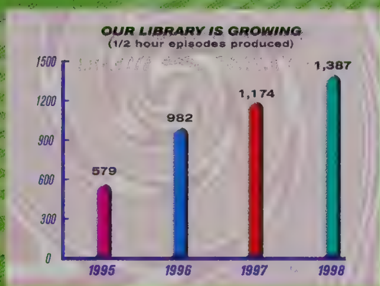
CINAR's Chef and his team

CINAR will produce a total of 55 half-hours of live-action programming. This includes four series, all of them ongoing from previous years, among which *Are You Afraid of the Dark?*™, which began production in 1992, and *Emily of New Moon*™, as well as *The Mystery Files of Shelby Woo*™ and *Sci Squad*™. CINAR will also produce one new family film, *Who Gets The House?*, and one new mini-series, *Revenge of the Land.*

Please turn to page 28 for the full 1999 Production Schedule.








The Busy World of Richard Scarry's™ "teacher-friendly" characters are now entering classrooms throughout North America.

CINAR Education

CINAR Education publishes and distributes approximately 2,000 supplemental education products that enhance classroom curricula and foster learning in the home. These products are marketed to more than 1.6 million teachers and 350,000 daycare providers across North America from pre-kindergarten to grade eight.

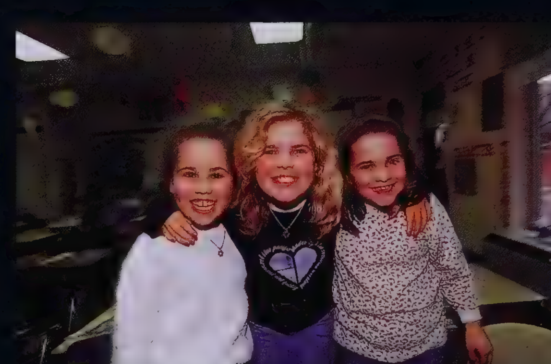
kindergartens, including those funded by United States federal programs such as Head Start. The Company believes that the pre-school market, which has been underserved by providers of supplemental education products, offers significant opportunities for growth.

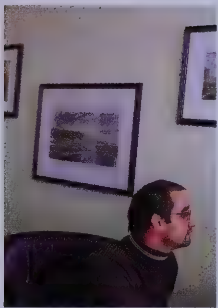
During 1998, HighReach Learning landed its largest-ever new customer, the Georgia-based Child Care Network daycare chain, and updated its products, including its innovative line of "BRAG" (Build vocabulary, Read and Grow) books.

Carson-Dellosa Publishing

Also based in North Carolina, Carson-Dellosa is engaged in the design, production, marketing and distribution of an extensive line of some 1,600 supplemental education products, ranging from books and games to bulletin-board accessories and teacher's aids.

Consistently ranked by educators as one of the top five companies in its field, Carson-Dellosa sends out catalogues to 1.6 million teachers across the United States in January and June of each year. Its products are available nationwide at more than 2,000 school-supply stores.





Hasanain Panju, CFO, CINAR Corporation & President, CINAR Education

GROWING CINAR EDUCATION

Continuing expansion in the supplemental education market is another principal focus of the Company's growth strategy.

The HighReach Learning acquisition

In June 1998, CINAR acquired North Carolina-based HighReach Learning, Inc. for an aggregate consideration of U.S. $18 million in cash and 422,000 Limited Voting Shares of CINAR.

HighReach Learning specializes in the design, publication and distribution of early-childhood education material for children from pre-school through kindergarten. It complements Carson-Dellosa's focus on kindergarten-to-grade-eight (K-8). Together, these two segments are part of a $10-billion K-12 market in the United States alone.

HighReach Learning, founded in 1986, is a supplier of nationally recognized early childhood education products for children aged 16 months to five years. HighReach Learning's materials are designed to build school-readiness skills, instill a desire to learn and promote parental involvement through age-appropriate teaching materials. These products comprise comprehensive programs that contain standardized lesson plans and related teaching products used on a daily basis by children in daycares and pre-schools in all 50 U.S. states. HighReach Learning also distributes a variety of teacher resource items, including some from Carson-Dellosa Publishing, such as puppets, big books and booklets that are designed to complement each program. In the United States, HighReach Learning's products are marketed to approximately 350,000 daycare providers and to pre-schools and kindergartens, including those funded by United States federal programs such as Head Start. The Company believes that the pre-school market, which has been underserved by providers of supplemental education products, offers significant opportunities for growth.

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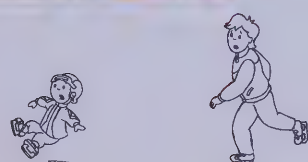
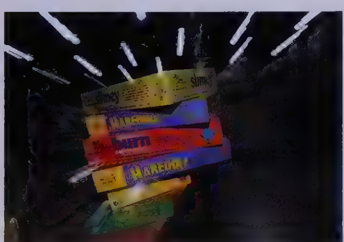


Now part of the daily Ready-to-Learn block of PBS programs, Wimzie's House™ delights young children in daycares and at home.

Carson-Dellosa products are based on its own original characters, which have attained widespread popularity with children and teachers, as well as on some of CINAR's most popular television characters. Approximately 80% of revenues are generated by repeat sales of existing products, a reflection of the "evergreen" qualities of its product lines.

In 1998, CINAR introduced its popular television characters into the classroom via Carson-Dellosa's distribution system. Characters from *Wimzie's House*™ and *The Busy World of Richard Scarry*™ are now depicted on an expanding line of workbooks, posters, puzzles and charts from Carson-Dellosa.

Carson-Dellosa also launched approximately 250 other new products during the course of the year, including education audio and video products for teachers, as well as games, puzzles and teaching aids. The new products contributed to a double-digit sales gain, and helped ensure that Carson-Dellosa would retain its spot on U.S. trade journal *Educational Marketer*'s list of the largest supplemental publishers in the United States for 1998.



Under The Wild Goose brand, Carson-Dellosa produces more than 100 award-winning, hands-on science kits aimed primarily at elementary and middle-school students and teachers, as well as hobbyists. Its products are distributed through school-supply stores and specialty retailers. The Wild Goose product lines includes: *Newton's Apple®* licensed science kits, developed for companion use with the PBS family science show of the same name; and *Leonardo*, a series of kits developed for The Boston Museum of Science. New products for 1998 included four new *Newton's Apple®* kits, three new *Leonardo* kits, as well as an all-new Science Fair Idea Book.

Reducing costs and streamlining operations

During 1998, CINAR Education undertook a number of initiatives aimed at streamlining the administrative and service aspects of the division's various operating units, while eliminating unnecessary duplication and costs. For instance, The Wild Goose Company's administration and product-assembly functions were relocated to Greensboro, at Caron-Dellosa's Head Office. Carson-Dellosa also took over certain accounting and administrative functions from HighReach Learning.

EduSoft Ltd.- adding a new dimension

Subsequent to the end of the fiscal year, on January 11, 1999, CINAR announced that it had signed a definitive agreement to acquire EduSoft, a company based in Israel that develops, publishes and markets multimedia education titles for the consumer and school markets. EduSoft products, including its highly regarded software for English-as-a-second-language instruction, are distributed in over 40 countries. It promises to be a significant addition to CINAR, providing the Company with an established global network of distributors, as well as access to new multimedia technology that can be leveraged by both its entertainment and education divisions.

CINAR Library (as of November 30, 1998)

Title	Countries sold	Number of episodes	Half-hour equivalent	Year(s) delivered
CEL ANIMATION • 1998 Productions				
Adventures of Paddington Bear (The)	124	26	26	1997-98
Animal Crackers*	129	22	22	1997-98
Arthur	121	65	65	1995-98
Babaloos*	57	130	26	1995-98
Caillou	75	65	11.5	1997-98
Country Mouse and The City Mouse Ad. (The)*	118	36	36	1996-98
Ivanhoe, the King's Knight*	61	52	52	1996-98
MumbleBumble*	16	26	6.5	1998
Patrouille 03*	1	10	10	1998
• Previous deliveries				
A Bunch of Munsch	93	7	7	1992
A Gift of Munsch	9	1	1	1993
Albert, the Fifth Musketeer*	74	26	26	1993-94
Bangers & Mash	82	25	6	1989
Blunders (The)	84	30	7	1984
Brown Bear's Wedding	100	1	1	1991
Busy World of Richard Scarry (The)	130	65	65	1995-97
C.L.Y.D.E.*	68	26	26	1990-91
Cat Tales*	51	15	15	1993-94
Dirty Beasts and Revolting Rhymes	73	2	2	1988
Doctor Xargle*	75	13	13	1997
Juniper Jungle	90	13	6	1993
Legend of White Fang* (The)	111	26	26	1992-93
Little Lulu Show (The)	156	26	26	1995-97
Madeline	88	6	6	1990-91
Nellie the Elephant	35	30	7	1991
New Shoe People	122	26	13	1990
NightHood*	56	26	26	1995-96
Papa Beaver Storytime*	102	26	26	1994-95
Perishers (The)	77	20	5	1979
Real Story The)	126	13	13	1989-92
Robinson Sucroë*	54	26	26	1994
Rod 'n' Emu	72	13	6	1990
Shoe People	122	26	6	1990
Simon in the Land of Chalk Drawings	75	26	6	1985
Stop the Smoggies*	77	52	52	1988-91
Treasure Island	18	13	13	1993
White Bear's Secret	98	1	1	1992
Windfalls	78	26	6	1988
Wonderful Wizard of Oz	39	60	60	1987-90
Young Robin Hood	53	26	26	1991-92


From the studios...


...to the screen

Title	Countries sold	Number of episodes	Half-hour equivalent	Year(s) delivered
MODEL ANIMATION • 1998 Productions				
Wombles (The) *	64	118	34	1973-98
• Previous deliveries				
Astrofarm	117	53	25	1992-96
Gingerbread Man	87	13	6	1992
Hattytown	22	39	19	1971
Herbs (The)	34	13	6	1968
Huxley Pig	67	26	13	1989
Moschops	21	13	6	1983
Paddington Bear	118	59	17	1976-86
Parsley the Lion	21	32	8	1970
Portland Bill	81	75	24	1984-89
LIVE ACTION - SERIES • 1998 Productions				
Emily of New Moon*	103	32	64	1997-98
Lassie*	121	52	52	1996-98
Mystery Files of Shelby Woo (The)	59	16	16	1998
• Previous deliveries				
Are You Afraid of the Dark?	120	65	65	1991-96
Chris Cross	74	13	13	1990-91
ENERGY*	18	1	1	1993
Happy Castle	64	13	13	1988
Intrepids (The)*	70	26	26	1991
New Adventures of the Intrepids (The)*	66	26	26	1994
Space Cases	113	27	27	1995-97
Wimzie's House	100	112	112	1995-97
LIVE-ACTION - FAMILY FILMS • 1998 Productions				
Ghosts of Dickens' Past (The)	5	1	3	1998
Un hiver de tourmente	42	1	3	1998
Sally Marshall is Not an Alien	45	1	3	1998
• Previous deliveries				
Best Bad Thing (The)	76	1	3	1997
Bonjour Timothy*	110	1	3	1995
Million Dollar Babies	91	2	6	1994
Stand-In for Danger	50	1	1	1990
Making of Million Dollar Babies (The)	2	1	1	1994
Whole of the Moon (The)	62	1	3	1995
LIVE-ACTION - MINI-SERIES				
• Previous deliveries				
Sleep Room (The)	83	2	8	1997

*Shared distribution rights

TOTAL : 1,387

Ronald A. Weinberg, Hasanain Panju, Stephen T. Carson

1999 Production Schedule

Titles	Production commitment	Total budget (MM)	Co-producer / Partner (Country)
ANIMATION			
• 1998 Productions			
Babaloos (The)	130x5min	13.0	France Animation (France), Ravensburger (Germany)
Caillou	65x5min	2.9	
Ivanhoe, The King's Knight	52x30min	23.0	France Animation (France), Ravensburger (Germany)
• On-going Productions			
Adventures of Paddington Bear (The)	39x30min	19.8	Protecrea (France)
Animal Crackers	39x30min	18.5	Alphanim (France), The Tribune Company (U.S.)
ARTHUR	75x30min	33.8	WGBH Educational Foundation (U.S.)
Country Mouse and the City Mouse Adventures (The)	52x30min	27.2	France Animation (France), Reader's Digest (U.S.), Ravensburger (G
Little Lulu Show (The)	52x30min	25.3	Golden Books Family Entertainment (U.S.), TMO (Germany)
MumbleBumble	65x5min	8.0	Egmont Imagination (Denmark)
Papa Beaver Storytime	39x30min	27.0	GMT Productions (France)
Patrol 03	26x30min	12.5	France Animation (France)
Wombles (The)	26x10min	4.6	United Media (U. K)
• New Productions			
Baskervilles	26x30min	13.3	Alphanim (France), Carlton (U.K.)
Flight Squad	26x30min	15.2	Antefilms, Neurones (France), Neurones (Luxemburg)
Journey to the West	52x30 min	19.6	China Central TV (China)
Mona the Vampire	26x30min	13.2	Alphanim (France), The Farnham Film Company (U.K.)
Poe lite	13x30min	6.2	Alphanim (France),
Ripley's Believe It or Not!	26x30min	13.2	Alphanim (France)
X-Duckx	13x30 min	6.9	Alphanim (France)
• In development			
Little Ghost			TMO (Germany)
NIKOLAI			H+a (Canada)
Rumble & Growl			Shanghai TV (China)
Suzy Zoo			Moon Mesa Media(U.S.)
LIVE ACTION SERIES			
• 1998 Productions			
Lassie	52x30min	31.5	Golden Books Family Entertainment (U.S.), PolyGram Filmed Enterta
• On-going Productions			
Are You Afraid of the Dark ?	78x30 min	33.2	MTV Networks (U.S.)
Emily of New Moon	39x1 hr	41.4	Salter Street Films (Canada)
Mystery Files of Shelby Woo (The)	20x30 min	11.0	MTV Networks (U.S.)
Sci Squad	13x30 min	3.6	KCTS Seattle (U.S.)
• In development			
Caillou live-action/animation			
Chasing Cain			Bernard Zukerman Productions (Canada)
Kids Discover the World			Reader's Digest (U.S.)
Normal			
FAMILY FILMS			
• 1998 Productions			
Ghosts of Dickens' Past (The)	1x90 min	3.0	Feature Films for Families (Canada)
Sally Marshall is Not an Alien	1x90 min	3.2	Infinity Pictures (Australia)
Un hiver de tourmente	1x90 min	2.3	Image & Compagnie (France)
• New Productions			
Who Gets the House ?	1x90 min	3.0	Feature Films for Families (Canada)
• In development			
Are You Afraid of the Dark?, The Movie			MTV Networks (U.S.)
MINI-SERIES			
• New Productions			
Revenge of the Land	2x2hr	12.7	Bernard Zukerman Productions (Canada)
• In development			
Marilyn Bell			Bernard Zukerman Productions (Canada)
	TOTAL:	448.1	

1998 Productions | On-going Productions | New Productions | In development

Pre-sales	Episodes delivered (fiscal 1998)	Episodes in production	Episodes in pre-production	Episodes delivered in 1999-2000
Children's Channel (U. K), TVO (Canada)	66-130			
TeleTOON (Canada)	46-65			
Canal J, France 2 (France), TeleTOON (Canada)	42-52			
ITV (U.K.), TF1, Canal J (France), TeleTOON (Canada), HBO (U.S.)	4-26	27-39		27-39
TeleTOON (Canada), Fox Family Channel (U.S.), ZDF (Germany), Animation Services (Hong Kong)	3-22	23-39		23-39
PBS, Random House (U.S), BBC (U. K), France 2 (France), AKOM (Korea), TVO (Canada)	41-65	66-75		66-75
WIC Entertainment, TVO (Canada), France 3, Canal J (France), HBO (U.S.)	27-36	37-52		37-52
HBO (U.S.), Family Channel (Canada),		27-52		27-52
Canadian Broadcasting Corporation (Canada), Kinderkanal (Germany), TV2 (Denmark), TV2 (Norway)	1-26		27-65	27-65
France 3 (France), Family Channel (Canada)		27-39		27-39
France 3 (France)	1-10	11-26		11-26
ITV (U. K), TVO (Canada)	5-22	23-26		23-26
France 3 (France), ITV (U.K.)		1-26		1-26
M6 (France)		1-26		1-26
China Central TV (China)			1-52	1-52
France 3 (France), YTV (Canada)			1-26	1-26
M6 (France), YTV (Canada)			1-13	1-13
France 3 (France), Family Channel (Canada), Fox Family Channel (U.S.)		1-13	14-26	1-26
France 3 (France), Super RTL (Germany)			1-13	1-13
Animal Planet (Discovery Communications) (U.S.), YTV (Canada)	27-52			
Nickelodeon (U.S.), Family Channel (Canada)		66-78		66-78
WIC Entertainment, Canadian Broadcasting Corporation (Canada)	18-32	33-39		33-39
Nickelodeon (U.S.), Global Television Network (Canada)	1-16	17-20		17-20
Discovery Channel (U.S.), TVO (Canada)		1-13		1-13
Reader's Digest (U.S.), TVO (Canada)				
YTV (Canada)				
Feature Films for Families (Canada)	1x90 min			
Films Tonic (Canada)	1x90 min			
Antenne 2 (France), Premier Choix, SRC (Canada)	1x90 min			
Feature Films for Families (Canada)		1x90 min		1x90 min
Canadian Broadcasting Corporation (Canada), CBS (U.S.)		2x2hr		2x2hr
	213 half-hours	233 half-hours	127 half-hours	360 half-hours

Corporate Information

SENIOR MANAGEMENT

Micheline Charest
Chairman and Co-CEO

Ronald A. Weinberg
President and Co-CEO

Hasanain Panju
Chief Financial Officer - President, CINAR Education

Marie-Josée Corbeil
Vice-President and General Counsel

Stephen T. Carson
President, Carson-Dellosa Publishing

Patricia L. Carson
Vice-President, Carson-Dellosa Publishing

Janet B. Dellosa
Vice-President, Carson-Dellosa Publishing

François Deschamps
Vice-President, CINAR Studios

Kelly A. Elwood
Vice-President, Marketing

David Ferguson
Vice-President, CINAR Europe
Managing Director, FilmFair

Louis Fournier
Vice-President, Sales and Co-Productions

Jeffrey Gerstein
Vice-President, Finance

Kathy H. Kelley
Vice-President, HighReach Learning

Patricia Lavoie
Vice-President, Live Action Production and Development

Michael G. Mayberry
President, HighReach Learning

Sharon H. Mayberry
Vice-President, HighReach Learning

Andrew Porporino
Vice-President, Finance-Production

Mario Ricci
Corporate Controller

Louise Sansregret
Vice-President, Communications

Cassandra Schafhausen
Vice-President, Animation Production and Development

Lesley Taylor
Vice-President, CINAR Animation

Daniel Tierney
Vice-President, Business Development

BOARD OF DIRECTORS

Micheline Charest
Chairman and Co-CEO, CINAR Corporation

Ronald A. Weinberg
President and Co-CEO, CINAR Corporation

Hasanain Panju
Chief Financial Officer, CINAR Corporation
President, CINAR Education

Marie-Josée Corbeil
Vice-President and General Counsel, CINAR Corporation

Hon. Jack Austin, P.C., O.C.
Member of the Senate of Canada

Pierre H. Lessard
President and CEO, Métro-Richelieu

Ray McManus
President, CAFA Financial Corporation

Stephen Reitman
Executive Vice-President, Reitmans (Canada) Ltd.

Lawrence P. Yelin
Partner, Martineau Walker

STOCK INFORMATION

ME and TSE: CIF.A, CIF.B
Nasdaq: CINRF

Number of shares outstanding at Nov. 1998:
Class A: 6,260,442
Class B: 26,871,298

STOCK TRANSFER AGENT

Montreal Trust
Place Montreal Trust, 1800 McGill College Avenue
Montreal (Québec) H3A 3K9

EXTERNAL LEGAL COUNSEL

Stikeman Elliott

BANKERS

Royal Bank of Canada

AUDITORS

Ernst & Young LLP

Vous pouvez obtenir la version française du rapport annuel en communiquant avec la Société:
Corporation CINAR
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Montréal (Québec) H2L 4S5
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Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Company's business is organized into two operating divisions: CINAR Entertainment and CINAR Education. CINAR Entertainment develops, produces, markets and distributes high quality, non-violent programming in over 150 countries. CINAR Education develops, produces, markets and distributes supplemental education products for children, families and educators primarily in North America.

The Company has, through acquisitions and internal growth, substantially increased revenues from operations in both its divisions. In November 1996, the Company acquired the FilmFair library, consisting of 24 titles, or 232 half-hour equivalent episodes of programming. In July 1997, the Company acquired Carson-Dellosa, a publisher and distributor of specialty supplies and classroom instructional materials for the K-8 supplemental education products market. In June 1998, the Company acquired HighReach Learning, a supplier of early childhood education products for children aged 16 months to five years. In January 1999, the Company entered into an agreement to acquire EduSoft, a developer, publisher and distributor of multimedia education software for consumers and schools. In January 1999, the Company also acquired 12 feature-length movie titles (36 half-hour equivalent episodes) of quality family programming produced, owned and licensed to third-parties by Leucadia Film Corporation. As a result of the significant expansion in recent years, the comparison set forth below may not be a meaningful indicator of the future growth or performance of the Company.

CINAR Entertainment earns revenues from the production and distribution of programs as well as from library sales. Revenues are also earned from the licensing and merchandising of its proprietary characters. CINAR Entertainment's revenues include government funding, which represented 14.2% of total revenues in fiscal 1998. This source of revenue has decreased since fiscal 1997 when it accounted for 24.2% of total revenues. The Company recognizes revenues in CINAR Entertainment when a television program is accepted by the licensee and there is reasonable assurance of collection of the proceeds. Amounts received prior to a program's availability are recorded as deferred revenue. Revenues based on production expenditures are recognized as earned. CINAR Education earns revenues from the sale of supplemental education products. Revenues are recognized in CINAR Education when products are shipped.

During fiscal 1998, total library sales increased to $27.3 million, a 32.5% increase over fiscal 1997, and represented 25.7% of total revenues of CINAR Entertainment in fiscal 1998. As the number of episodes in CINAR's film library increases, revenues from this source should continue to grow. Revenues from library sales typically carry higher margins than those associated with production revenues.

The Company continues to grow its foreign sales through international co-productions, which typically enhance revenues and profit derived from each project. Revenues and expenses from these co-productions reflect only CINAR's share of the total revenues and expenses from co-productions. The FilmFair acquisition at the end of fiscal 1996 and the opening of sales and distribution offices in London, England and Shannon, Ireland in fiscal 1997 have allowed the Company to strengthen its presence overseas and pursue international growth more aggressively. International production revenues continue to represent over 50% of total production revenues and the Company expects this trend to continue in the foreseeable future. The following table sets forth CINAR's revenues by geographical market during the fiscal years indicated. The United States accounted for 43.8% of the Company's fiscal 1998 revenues.

[dollars in thousands]	1996	1997	1998
Geographical Market			
Canada	$28,685	$40,554	$40,498
United States	17,236	31,381	66,065
Other	12,014	21,743	44,415
Total	$57,935	$93,678	$150,978

Cost of sales at CINAR Entertainment includes the amortization of CINAR's own programs as well as the direct cost of providing services to third parties. As a program is delivered, its costs are amortized against its revenues, based on the proportion that its current revenues bear to the total expected revenues in accordance with SFAS 53. See Note 2 of Notes to Consolidated Financial Statements. Cost of sales at CINAR Education includes direct and indirect labor and materials. CINAR Education has higher gross margins than CINAR Entertainment. However, selling, general and administrative expenses associated with CINAR Education as a percentage of its revenues are higher than the selling, general and administrative expenses associated with CINAR Entertainment as a percentage of its revenues.

Results of operations for any period are significantly dependent on the number and timing of television programs completed or made available to various media. In addition, the gross profit on each program can vary significantly depending on the total revenues of the program, which are determined by the marketplace, the Company's share of total revenues, which is negotiated with its co-producers and partners, and the cost to produce the program. Consequently, the results of operations may fluctuate materially from period to period and the results of any one period are not necessarily indicative of results for future periods. As CINAR produces more programs, revenues should become more evenly distributed throughout the fiscal year.

The Company's revenues from international sources are customarily paid in U.S. dollars and as such may be affected by fluctuations in the exchange rate of the U.S. dollar. Currency exchange rates may vary substantially during the course of a production period. See "Hedging Activities."

Results of Operations

The following table presents, for the periods indicated, various items in the consolidated statements of earnings and the percentage relationships which those items bear to consolidated revenues. Cost of sales, as a percentage of revenues, and gross margins for CINAR Entertainment and CINAR Education are based on revenues of the respective divisions.

Years ended November 30 (In thousands of Canadian dollars)	1996		1997		1998	
Revenues						
Entertainment	$57,935	100.0%	$80,689	86.1%	$106,082	70.3%
Education	–	–	12,989	13.9%	44,896	29.7%
	$57,935	100.0%	93,678	100.0%	150,978	100.0%
Cost of sales						
Entertainment	42,423	73.2%	56,118	69.5%	71,417	67.3%
Education	–	–	6,751	52.0%	22,176	49.4%
	42,423	73.2%	62,869	67.1%	93,593	62.0%
Gross margin						
Entertainment	15,512	26.8%	24,571	30.5%	34,665	32.7%
Education	–	–	6,238	48.0%	22,720	50.6%
	15,512	26.8%	30,809	32.9%	57,385	38.0%
Expenses						
Selling, general and administrative	2,919	5.0%	7,213	7.7%	17,675	11.7%
Amortization of acquired film libraries	–	–	1,191	1.3%	1,191	0.8%
Depreciation and amortization of fixed assets	852	1.5%	1,375	1.4%	1,845	1.2%
Amortization of goodwill	–	–	660	0.7%	2,616	1.7%
Interest	38	0.1%	1,475	1.6%	2,335	1.6%
	3,809	6.6%	11,914	12.7%	25,662	17.0%
	11,703	20.2%	18,895	20.2%	31,723	21.0%
Share of earnings of equity investment	–	–	–	–	480	0.3%
Earnings before income taxes	11,703	20.2%	18,895	20.2%	32,203	21.3%
Provision for income taxes	3,242	5.6%	6,024	6.4%	10,371	6.8%
Net earnings	$8,461	14.6%	$12,871	13.8%	$21,832	14.5%

Fiscal 1998 Compared to Fiscal 1997

Revenues

Revenues in fiscal 1998 were $151.0 million compared to $93.7 million in fiscal 1997, representing an increase of $57.3 million or 61.2%. The increase, as more fully described below, is a result of the continued growth in production activities and library sales, as well as the full year of revenues from Carson-Dellosa, acquired in July 1997, and the five months of revenues from HighReach Learning, acquired in June 1998.

Revenues in CINAR Entertainment were $106.1 million in fiscal 1998 compared to $80.7 million in fiscal 1997, representing an increase of $25.4 million or 31.5%. This increase was attributable to: higher production revenues, from $57.3 million in fiscal 1997 to $74.2 million in fiscal 1998, representing an increase of 29.5%; and the increase in revenues from library sales, from $20.6 million in fiscal 1997 to $27.3 million in fiscal 1998, representing an increase of 32.5%. Revenues in CINAR Education were $44.9 million in fiscal 1998 compared to $13.0 million in fiscal 1997, representing an increase of 245.6%, due to the inclusion of a full year's revenues from Carson-Dellosa, internal growth and the acquisition of HighReach Learning in June 1998, which contributed five months of revenues subsequent to its acquisition.

During fiscal 1998, the Company delivered 13 television series, and three family films, compared to 14 television series, one miniseries and one family film during fiscal 1997. As of November 30, 1998, the Company was in production on 14 television series: **THE ADVENTURES OF PADDINGTON BEAR™** (episodes 27-39), **ANIMAL CRACKERS®** (episodes 23-39), **ARTHUR™** (episodes 66-75), **THE COUNTRY MOUSE AND THE CITY MOUSE ADVENTURES™** (episodes 37-52), **THE LITTLE LULU SHOW™** (episodes 27-52), **MONA THE VAMPIRE™** (episodes 1-26), **MUMBLEBUMBLE™** (episodes 27-65), **PATROL 03™** (episodes 11-26), **RIPLEY'S BELIEVE IT OR NOT!™** (episodes 1-26), **THE WOMBLES™** (episodes 23-26), **ARE YOU AFRAID OF THE DARK?™** (episodes 66-78), **EMILY OF NEW MOON™** (episodes 33-39), **THE MYSTERY FILES OF SHELBY WOO™** (episodes 17-20) and, **SCI-SQUAD™** (episodes 1-13). In addition, the Company was in production on one mini-series, **REVENGE OF THE LAND™**, and one family film, **WHO GETS THE HOUSE?™**.

Cost of Sales

Cost of sales was $93.6 million in fiscal 1998 compared to $62.9 million in fiscal 1997, representing an increase of $30.7 million or 48.9%. Consolidated gross margin increased to 38.0% in fiscal 1998 from 32.9% in fiscal 1997, primarily due to a changing mix of products resulting from the acquisitions of Carson-Dellosa and HighReach Learning and from increased library sales. Cost of sales in CINAR Entertainment was $71.4 million in fiscal 1998 compared to $56.1 million in fiscal 1997, representing an increase of 27.3%, due to the increase in production activities. Gross margin in CINAR Entertainment rose to 32.7% in fiscal 1998 from 30.5% in fiscal 1997, largely due to the continued expansion of its library sales, which carry substantially lower costs than production revenues. Cost of sales in CINAR Education in fiscal 1998 was $22.2 million compared to $6.8 million in fiscal 1997, representing an increase of 228.5%, due to the inclusion of sales for Carson-Dellosa for a full year and for HighReach Learning for the five months subsequent to the date of its acquisition. Gross margin in CINAR Education increased to 50.6% in fiscal 1998 from 48.0% in fiscal 1997, due to the acquisition of HighReach Learning, whose products carry higher profit margins than those of Carson-Dellosa.

Selling, General and Administrative

Selling, general and administrative expenses in fiscal 1998 were $17.7 million compared to $7.2 million in fiscal 1997, representing an increase of $10.5 million or 145.0%, due primarily to the inclusion of the operations of Carson-Dellosa for a full year and of HighReach Learning for the five months subsequent to the date of its acquisition. Within each of CINAR Education and CINAR Entertainment, as a percentage of divisional revenues, selling, general and administrative expenses remained relatively constant from fiscal 1997 to fiscal 1998.

Amortization of Acquired Film Libraries

Amortization of acquired film libraries remained constant from fiscal 1998 compared to fiscal 1997 at $1.2 million and reflects the amortization of the FilmFair library acquired at the end of fiscal 1996.

Depreciation and Amortization of Fixed Assets

Depreciation and amortization of fixed assets was $1.8 million in fiscal 1998 compared to $1.4 million in fiscal 1997, representing an increase of 34.2%, due primarily to the depreciation of fixed assets of Carson-Dellosa for a full year compared to four months in fiscal 1997 and the depreciation and amortization of fixed assets of HighReach Learning for the five months subsequent to the date of its acquisition.

Amortization of Goodwill

Amortization of goodwill increased to $2.6 million in fiscal 1998 compared to $0.7 million in fiscal 1997, due to a full year of amortization of the goodwill related to the acquisition of Carson-Dellosa and the amortization of the goodwill related to the acquisition of HighReach Learning for the five months subsequent to the date of its acquisition.

Interest

Interest expense increased to $2.3 million in fiscal 1998 compared to $1.5 million in fiscal 1997, primarily due to the borrowings under Carson-Dellosa's revolving credit facility and its inclusion for a full year in fiscal 1998 compared to four months in fiscal 1997.

Share of Earnings of Equity Investment

The Company's share of earnings from its 20% equity investment in TeleTOON was $0.5 million in fiscal 1998.

Income Taxes

The Company's effective income tax rate for fiscal 1998 was 32.2% compared to 31.9% in fiscal 1997. In fiscal 1998, the Company used approximately 13.0% of a tax reduction for a gift of Canadian cultural property donated in 1996. The Company now has approximately 44.0% of the tax reduction to carry-forward to subsequent years.

Net Earnings

Net earnings reached $21.8 million ($0.67 per share) in fiscal 1998, a 69.6% increase over the $12.9 million ($0.48 per share) in fiscal 1997. This growth is attributable to CINAR's increased production activities, the exploitation of the Company's growing film library, a full year's net earnings from Carson-Dellosa, five months net earnings from HighReach Learning and management's continued control of overhead costs. Basic earnings per share were calculated on a weighted average number of shares of 32.8 million in fiscal 1998 and 26.7 million in fiscal 1997. The increase in the weighted average number of shares is mainly due to the full effect of the July 1997 acquisition of Carson-Dellosa and the partial effect of the June 1998 acquisition of HighReach Learning.

Fiscal 1997 Compared to Fiscal 1996

Revenues

Revenues for fiscal 1997 were $93.7 million compared to $57.9 million in fiscal 1996, representing an increase of $35.7 million or 61.7%. The increase was attributable to internal growth in revenues of $22.7 million and $13.0 million due to the acquisition of Carson-Dellosa in July 1997.

Revenues of CINAR Entertainment were $80.7 million in fiscal 1997 compared to $57.9 million in fiscal 1996, representing an increase of $22.8 million or 39.3%. This increase is attributable to: higher production revenues, which increased from $42.5 million in fiscal 1996 to $57.3 million in fiscal 1997, representing an increase of 34.8%; and the increase in revenues from library sales from $13.9 million in fiscal 1996 to $20.6 million in fiscal 1997, representing an increase of 48.2%. The acquisition of Carson-Dellosa in July 1997, contributed $13.0 million of sales to CINAR Education over the four months subsequent to its acquisition.

During fiscal 1997, the Company delivered 14 television series, one miniseries and one family film, compared to eight television series and one pilot episode during fiscal 1996. As of November 30, 1997, the Company was in production on 10 television series: **THE ADVENTURES OF PADDINGTON BEAR™** (episodes 4-26), **ANIMAL CRACKERS®** (episodes 3-26), **ARTHUR™** (episodes 41-65), **CAILLOU™** (episodes 46-65), **THE COUNTRY MOUSE AND THE CITY MOUSE ADVENTURES™** (episodes 27-52), **IVANHOE, THE KING'S KNIGHT™** (episodes 42-52), **THE LITTLE LULU SHOW™** (episodes 27-52), **THE WOMBLES™**

(episodes 5-26), EMILY OF NEW MOON™ (episodes 18-39) and LASSIE™ (episodes 27-52). In addition, the Company was in production on two family films, UN HIVER DE TOURMENTE™ AND SALLY MARSHALL IS NOT AN ALIEN™.

Cost of Sales

Cost of sales was $62.9 million in fiscal 1997 compared to $42.4 million in fiscal 1996, representing an increase of $20.4 million or 48.2%. Consolidated gross margin increased to 32.9% in fiscal 1997 from 26.8% in fiscal 1996, primarily due to a changing mix of products resulting from the acquisition of Carson-Dellosa and from increased library sales. Cost of sales in CINAR Entertainment was $56.1 million in fiscal 1997 compared to $42.4 million in fiscal 1996, representing an increase of 32.3%, due to the increased production schedule in 1997. Gross margin in CINAR Entertainment increased to 30.5% in fiscal 1997 from 26.8% in fiscal 1996, largely due to the continued expansion of CINAR Entertainment's library sales, which carry substantially lower costs than production revenues. Cost of sales in CINAR Education in fiscal 1997 was $6.8 million and gross margin was 48.0%.

Selling, General and Administrative

Selling, general and administrative expenses in fiscal 1997 were $7.2 million compared to $2.9 million in fiscal 1996, representing an increase of $4.3 million or 147.1%, due primarily to the acquisition of Carson-Dellosa, which operates from a significantly different cost structure than CINAR Entertainment and which accounted for $3.8 million of selling, general and administrative expenses in fiscal 1997. The balance of $3.4 million of selling, general and administrative expenses in fiscal 1997 associated with CINAR Entertainment represented a 17.2% increase over fiscal 1996. As a percentage of CINAR Entertainment revenues, selling, general and administrative expenses decreased from 5.0% in fiscal 1996 to 4.2% in fiscal 1997, primarily due to management's control over expenses.

Amortization of Acquired Film Libraries

Amortization of acquired film libraries in the amount of $1.2 million in fiscal 1997 represents the amortization of the FilmFair library acquired at the end of fiscal 1996.

Depreciation and Amortization of Fixed Assets

Depreciation and amortization of fixed assets was $1.4 million in fiscal 1997 compared to $0.9 million in fiscal 1996, due primarily to the completion of the expansion and renovation of CINAR Studios and the relocation of administrative offices.

Amortization of Goodwill

Amortization of goodwill was $0.7 million in fiscal 1997, resulting from the Carson-Dellosa acquisition in July 1997.

Interest

Interest expense increased by 1.4 million in fiscal 1997 compared to fiscal 1996, primarily due to the increased use of credit facilities at Carson-Dellosa.

Income Taxes

The Company's effective income tax rate in fiscal 1997 was 31.9% compared to 27.7% in fiscal 1996. This increase was primarily due to higher income tax rates in Canada, resulting from the reduced impact of the manufacturing and processing tax credit in fiscal 1997 and the addition of Carson-Dellosa, which is taxed in the United States at an effective tax rate of 41%. In fiscal 1997, the Company used approximately 20% of a tax reduction for a gift of Canadian cultural property donated in 1996, which partially offset the effect of higher tax rates.

Net Earnings

Net earnings reached $12.9 million ($0.48 per share) in fiscal 1997, a 52.1% increase over the $8.5 million ($0.39 per share) posted in fiscal 1996. This continued growth was due to CINAR's increased production slate, the exploitation of the Company's growing film library and the addition of the new supplemental education product line resulting from the Carson-Dellosa acquisition. Basic earnings per share were calculated on a weighted average number of shares of 26.7 million in fiscal 1997 and 21.8 million in fiscal 1996. The increase in the weighted average number of shares is mainly due to the full effect of the July 1996 U.S. public offering of 4.7 million Limited Voting Shares and the partial effect of the September 1997 public offering of 6.1 million Limited Voting Shares.

Liquidity and Capital Resources

Working Capital

Working capital at the end of fiscal 1998 was $205.4 million, a $26.6 million reduction from the $232.0 million at the end of fiscal 1997. This reduction was principally due to the repayment of the term loan facility used to acquire Carson-Dellosa, funds used in the June 1998 acquisition of HighReach Learning and additions to fixed assets, partially offset by funds generated from operations.

Indebtedness

As of November 30, 1998, the Company had total debt outstanding of $10.5 million, compared to $44.2 million as of November 30, 1997. On January 25, 1999, the Company entered into the New U.S. Bank Facility which provides for aggregate borrowings of US$60.0 million, a component of which serves to replace the Company's existing US$17.0 million facility. On February 5, 1999, US$45.6 million was outstanding under the New U.S. Bank Facility. The Company's existing Canadian bank facility provides for aggregate borrowings of $55.5 million, of which US$8.5 million was outstanding on February 5, 1999. The Company believes that its cash and cash equivalents on hand, together with cash generated from operations and amounts available under its banking facilities, will be adequate to meet the Company's current operating requirements.

Capital Expenditures

During fiscal 1998, the Company had capital expenditures of $2.0 million compared to $1.3 million in fiscal 1997. The capital expenditures in CINAR Entertainment were in line with the previous year. The increase is attributable to capital expenditures in CINAR Education, which reflects a full year of operations from Carson-Dellosa and five months of operations from HighReach Learning subsequent to the date of its acquisition. These capital expenditures were made in the ordinary course of operations in updating and maintaining the fixed assets of this division. In June 1998, CINAR acquired HighReach Learning for cash consideration of $26.5 million (US$18.0 million) and 422,000 Limited Voting Shares valued at $10.3 million.

Hedging Activities

Substantially all the Company's foreign sales are denominated in U.S. dollars. The Company, therefore, could be affected by fluctuations in the exchange rate of the U.S. dollar. This risk is largely reduced because a significant portion of the Company's liabilities and expenses are also denominated in U.S. dollars. When considered advisable, the Company hedges the remaining risk through forward sales of the amounts by which the U.S. dollar denominated receivables exceed the U.S. dollar denominated payables.

Year 2000

Many existing computer programs were designed and developed without considering the upcoming change in the century, which could lead to the failure of computer applications or create erroneous results by or at the Year 2000. The Year 2000 issue is a broad business issue, the impact of which extends beyond traditional computer hardware and software to possible failure of other systems and instrumentation, including equipment used by the Company and third parties with which the Company does business.

To address the Year 2000 issue, the Company has undertaken efforts to identify, test and modify or replace systems that may not be Year 2000 compliant. The Company, under the direction of its Board of Directors, has designated a committee of senior personnel to oversee these efforts. The Company believes that it has substantially completed the process of assessing the potential impact of the Year 2000 issues on its own systems and equipment. The Company expects to be Year 2000 compliant with respect to all significant business systems and equipment by September, 1999. The Company's standard for Year 2000 compliance requires that a system or piece of equipment be designed to be used prior to, on and after January 1, 2000. Such systems and equipment must operate without error in dates and date-related data, including calculating, comparing, indexing and sequencing prior to, on and after January 1, 2000.

In its normal capital spending plan, the Company has replaced many of its key systems with systems that are expected to be Year 2000 compliant. As a result of its capital planning, no acceleration of material planned systems replacements were made due to Year 2000 issues. The Company is in the testing or remediation phase with respect to the remainder of its internal Year 2000 sensitive systems and equipment. Specifically, the Company has determined that most of the systems and equipment used in the production and distribution of its programming are not affected by the Year 2000 problem. Although the Company believes that the costs associated with its achieving Year 2000 compliance will not be material, there can be no assurance that the Company will not incur unanticipated costs or that it will be able to successfully address all Year 2000 issues. If the Company is unable to resolve its Year 2000 issues in a timely and cost-efficient manner, such inability could have a material adverse effect on the Company's business.

The impact of the Year 2000 issue on the Company will also be affected by the Year 2000 readiness of its business partners, customers, suppliers and vendors and providers of facilities, equipment and services. Failure by these third parties to be Year 2000 compliant may adversely affect, among other things, the Company's production, revenues and the timing of cash receipts. The Company has begun to make inquiries of such third parties in this regard and based on the responses to these inquiries the Company will decide to what extent, if any, a contingency plan should be developed. To date, however, the Company has received only preliminary feedback from such third parties and has not independently confirmed any information received from such third parties with respect to Year 2000 issues. As such, there can be no assurance that such third parties will address the Year 2000 issue and complete their Year 2000 conversion in a timely fashion or will not suffer a Year 2000 business disruption that may adversely affect the Company's business.

Inflation

The Company has determined that during the periods covered inflation did not have a material impact on the financial results.

Auditors' Report

To the Shareholders of CINAR Corporation

We have audited the consolidated balance sheets of **CINAR Corporation** [formerly CINAR Films Inc.] as at November 30, 1998 and 1997 and the consolidated statements of retained earnings, earnings and changes in financial position for each of the years in the three year period ended November 30, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three year period ended November 30, 1998 in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Chartered Accountants

Montréal, Canada,
January 28, 1999

Consolidated Balance Sheets

As at November 30 [in thousands of Canadian dollars]	1998 $	1997 $
ASSETS		
Current		
Cash	10,356	2,054
Marketable securities [note 4]	70,376	169,345
Accounts receivable [net of allowance for doubtful accounts, $1,013; 1997 - $1,892]	75,901	45,282
Tax credits refundable	33,011	23,822
Inventories [note 5]	8,586	5,917
Film costs [note 6]	60,650	43,949
Total current assets	258,880	290,369
Acquired film libraries	21,452	22,645
Fixed assets [note 7]	6,475	5,794
Goodwill	101,168	60,547
Other assets [note 8]	1,257	1,026
	389,232	380,381

See accompanying notes

On behalf of the Board:

Director

Director

As at November 30 [In thousands of Canadian dollars]	1998 $	1997 $
LIABILITIES AND SHAREHOLDERS' EQUITY		
Bank indebtedness [note 9]	10,503	13,982
Trade payables	1,824	5,440
Accrued liabilities	15,195	11,182
Income taxes payable	5,818	1,889
Deferred revenue	18,052	16,898
Current portion of long-term debt	–	7,495
Deferred income taxes	2,104	1,518
Total current liabilities	53,496	58,404
Long-term debt [note 9]	–	22,720
Total liabilities	53,496	81,124
Contractual obligations [note 15]		
Shareholders' equity		
Capital stock [note 10] Issued and outstanding 6,260,442 Class A and 26,871,298 Class B shares [1997 – 6,466,392 Class A and 26,051,598 Class B shares]	275,694	263,391
Cumulative translation adjustment	2,973	629
Retained earnings	57,069	35,237
Total shareholders' equity	335,736	299,257
	389,232	380,381

Consolidated Statements Of Retained Earnings

Years ended November 30 [in thousands of Canadian dollars]	1998 $	1997 $	1996 $
Balance, beginning of year	35,237	22,366	13,905
Net earnings for the year	21,832	12,871	8,461
Balance, end of year	57,069	35,237	22,366

See accompanying notes

Consolidated Statements Of Earnings

Years ended November 30 [in thousands of Canadian dollars]	1998 $	1997 $	1996 $
Revenues [note 12]	150,978	93,678	57,935
Cost of sales	93,593	62,869	42,423
Gross margin	57,385	30,809	15,512
Expenses			
Selling, general and administrative	17,675	7,213	2,919
Amortization of acquired film libraries	1,191	1,191	–
Depreciation and amortization of fixed assets	1,845	1,375	852
Amortization of goodwill	2,616	660	–
Interest	2,335	1,475	38
	25,662	11,914	3,809
	31,723	18,895	11,703
Share of earnings of equity investment	480	–	–
Earnings before income taxes	32,203	18,895	11,703
Provision for income taxes [note 13]	10,371	6,024	3,242
Net earnings for the year	21,832	12,871	8,461
Earnings per Class A and Class B share [note 14]			
basic	$0.67	$0.48	$0.39
fully diluted	$0.64	$0.46	$0.37
Weighted average number of Class A and Class B shares outstanding	32,825,629	26,738,682	21,824,086

See accompanying notes

Consolidated Statements Of Changes In Financial Position

Years ended November 30 [In thousands of Canadian dollars]	1998 $	1997 $	1996 $
OPERATING ACTIVITIES			
Net earnings for the year	21,832	12,871	8,461
Items not affecting cash:			
Depreciation and amortization	5,652	3,226	852
Deferred income taxes	775	2,675	2,358
	28,259	18,772	11,671
Increase in accounts receivable	(30,551)	(12,684)	(8,656)
Increase in tax credits refundable	(9,189)	(11,317)	(6,641)
Increase in inventories	(2,669)	(72)	–
Increase in film costs	(16,701)	(1,290)	(13,161)
Increase (decrease) in trade payables and accrued liabilities	(852)	4,432	2,723
Increase in deferred revenue	1,154	3,131	280
Other	3,509	(1,934)	(835)
Cash used in operating activities	(27,040)	(962)	(14,619)
FINANCING ACTIVITIES			
Proceeds (repayment) of long-term debt	(30,215)	30,215	–
Issue of capital stock	12,303	167,262	70,293
Share issue costs	–	(8,878)	(4,536)
Cash provided by (used in) financing activities	(17,912)	188,599	65,757
INVESTING ACTIVITIES			
Business acquisitions [note 3]	(37,557)	(57,499)	–
Cash acquired (bank indebtedness assumed) on acquisitions [note 3]	1,425	(17,303)	–
Decrease (increase) in marketable securities	98,969	(119,393)	(26,179)
Acquisition of film libraries	–	(98)	(23,738)
Additions to fixed assets	(2,047)	(1,337)	(3,573)
Additions to goodwill	–	(285)	–
Cash provided by (used in) investing activities	60,790	(195,915)	(53,490)
TRANSLATION ADJUSTMENT	(4,057)	(1,024)	–
Increase (decrease) in cash position	11,781	(9,302)	(2,352)
Cash position, beginning of year	(11,928)	(2,626)	(274)
Cash position, end of year	(147)	(11,928)	(2,626)
Cash position is comprised of:			
Cash	10,356	2,054	1,155
Bank indebtedness	(10,503)	(13,982)	(3,781)
	(147)	(11,928)	(2,626)
Cash interest paid	3,283	693	38
Cash income taxes paid	3,776	1,571	2,363

See accompanying notes

Notes to Consolidated Financial Statements

November 30, 1998 and 1997
[In Canadian dollars]

1. Basis Of Presentation

The consolidated financial statements include the accounts of CINAR Corporation [the "Company" or "CINAR"] [on December 10, 1998, the Company changed its name from CINAR Films Inc.] and its subsidiaries, from the date of their acquisition or creation. These statements have been prepared in accordance with accounting principles generally accepted in Canada ["Canadian GAAP"]. The Company's significant accounting policies conform in all material respects with accounting principles generally accepted in the United States ["US GAAP"] except as described in note 18.

The Company's business is organized into two operating divisions: CINAR Entertainment and CINAR Education. CINAR Entertainment develops, produces, markets and distributes high-quality, non-violent programming in over 150 countries. It is also involved in the exploitation of the ancillary rights to their properties including music, video and merchandising rights. CINAR Education develops, produces, markets and distributes supplemental education products for children, families and educators primarily in North America.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates used by management in the preparation of these financial statements relate to the accounting for film costs [see note 2].

Certain figures in the 1997 financial statements have been reclassified to conform with the basis of presentation used in 1998. The amounts on the balance sheets and the statements of earnings and in notes 3, 10, 14 and 18 with respect to Class A and Class B shares, stock options and earnings per share are shown after giving effect to the subdivision of shares described in note 10.

2. Accounting Policies

(a) Inventories

Inventories consist primarily of finished printed education materials and science kits and are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(b) Film costs

Production costs are capitalized and carried as film costs at the lower of cost and net realizable value. The individual film forecast method is used to amortize film costs based on the proportion that gross revenues realized bear to management's estimate of the total gross revenues expected to be received. Revenue estimates on a film-by-film basis are reviewed quarterly by management and are revised if warranted, based on management's appraisal of current market conditions. Where applicable, unamortized costs are written down to net realizable value based on this appraisal. Amortization of film costs and write-downs are included in cost of sales. The Company also has an interest in productions which have been fully amortized in prior years and which have no carrying value in these financial statements.

2. Accounting Policies [Continued]

(c) Acquired film libraries

Film libraries are amortized on the straight-line basis over a period of twenty years. On a quarterly basis, management reviews their carrying value by evaluating undiscounted expected cash flows. Film libraries are written down to their estimated net realizable value when a permanent decline is identified. As at November 30, 1998, no such write-down has been deemed necessary.

(d) Fixed assets

Fixed assets are depreciated on the diminishing balance basis at the following rates:

Furniture and fixtures	20%
Equipment	30%
Computer equipment	30%

Leasehold improvements are amortized on the straight-line basis over the terms of the leases.

(e) Goodwill

Goodwill represents the excess of acquisition costs over the fair value of the identifiable net assets of acquired businesses and is being amortized on the straight-line basis over a period of thirty years. On a quarterly basis, management reviews its carrying value by evaluating undiscounted expected cash flows. Goodwill is written down to its estimated net realizable value when a permanent decline is identified. As at November 30, 1998, no such write-down has been deemed necessary.

(f) Revenue recognition

The Company recognizes revenue when a television program is accepted by the licensee and there is reasonable assurance of collection of the proceeds. Amounts received prior to a program's availability are recorded as deferred revenue. Revenues based on production expenditures are recognized as earned. Revenues derived from the sale of inventoried products are recognized at the time of shipment.

(g) Income taxes

CINAR follows the tax allocation method of accounting for income taxes. Under this method, income tax expense is calculated on the basis of earnings as reported in the statement of earnings rather than on the Company's taxable income. Deferred tax balances are calculated using the deferral method.

(h) Foreign currency

Assets and liabilities of the Company's foreign subsidiaries classified as integrated and foreign currency denominated assets and liabilities of Canadian operations are translated into Canadian dollars at the exchange rates in effect at the balance sheet date for monetary items and at exchange rates in effect at the transaction date for non-monetary items. Revenues and expenses are translated at average rates prevailing during the year, except for amortization of film costs and goodwill and depreciation and amortization of fixed assets, which are translated at exchange rates prevailing when the related assets were produced or acquired. Gains and losses arising from the fluctuations in exchange rates are reflected in net earnings for the year except for gains and losses related to long-term monetary items which are deferred and amortized over the remaining term to maturity.

The Company's foreign subsidiaries classified as self-sustaining are translated using the current rate method, whereby the assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rates for the year. Translation gains and losses are deferred and included as a separate component of shareholders' equity.

The cumulative translation adjustment in shareholders' equity represents the net unrealized foreign currency translation gain or loss on the Company's net investment in self-sustaining operations. The net change in the balance for 1998 is primarily due to fluctuations in the exchange rate in respect of the US and Canadian dollars.

3. ACQUISITIONS

[a] On June 24, 1998, the Company acquired 100% of the shares of HighReach Learning Inc. for an aggregate consideration of US$24,989,000. HighReach Learning Inc. is a Charlotte, North Carolina-based company specializing in the design, publication and distribution of proprietary early childhood education products for children from 16 months old through kindergarten age. This transaction was accounted for as a purchase and can be summarized as follows:

	CDN $	US $
	[In thousands]	
Assets acquired:		
Cash	1,425	969
Accounts receivable	68	46
Fixed assets	197	134
Goodwill	37,116	25,230
	38,806	26,379
Liabilities assumed:		
Accounts payable	1,249	849
Net assets	37,557	25,530
Purchase Price:		
Cash	26,480	18,000
422,000 Class B shares	10,282	6,989
Costs of acquisition	795	541
	37,557	25,530

Unaudited pro forma revenues, net earnings and earnings per share, had the results of operations of the acquired business been included from December 1, 1996, would have been $155,372,000 [1997 - $100,348,000], $21,755,000 [1997 - $12,839,000] and $0.66 [1997 - $0.47] per share, respectively

[b] On July 29, 1997, the Company acquired 100% of the shares of Carson-Dellosa Publishing Company Inc., The Wild Goose Company and Unique Collating Service Inc. ["the Carson-Dellosa Group"], for US$40,500,000. These companies, located in Greensboro, North Carolina and Salt Lake City, Utah, are publishers, manufacturers and distributors of specialty supplies and classroom instructional materials directed primarily to the pre-school to eight grade supplemental education market. The transactions were accounted for as a purchase and can be summarized as follows:

3. ACQUISITIONS [CONTINUED]

	CDN $	US $
	[In thousands]	
Assets acquired:		
Accounts receivable	18,337	13,246
Inventories	5,845	4,222
Fixed assets	1,396	1,008
Goodwill	59,269	42,813
	84,847	61,289
Liabilities assumed:		
Bank indebtedness	17,303	12,499
Accounts payable	6,227	4,498
Other	3,818	2,758
	27,348	19,755
Net assets	57,499	41,534
Purchase Price:		
Cash	33,917	24,500
930,570 Class B shares	22,150	16,000
Costs of acquisition	1,432	1,034
	57,499	41,534

Unaudited pro forma revenues, net earnings and earnings per share, had the results of operations of the acquired businesses been included from December 1, 1995, would have been $120,042,000 for 1997 [1996 - $91,213,000], $13,763,000 for 1997 [1996 - $9,177,000] and $0.51 for 1997 [1996 - $0.41] per share, respectively.

4. MARKETABLE SECURITIES

Marketable securities [17% (1997-18%) of which are denominated in Canadian dollars and 83% (1997-82%) in U.S. dollars] consist of high investment grade securities and are carried at cost which approximates market value. The portfolio is invested in debt securities, none of which exceeds 10% of the portfolio.

5. INVENTORIES

	1998 $	1997 $
	[In thousands]	
Finished goods	6,066	4,921
Work-in-process	2,520	996
	8,586	5,917

6. FILM COSTS

	1998 $	1997 $
	[In thousands]	
Released	32,961	26,580
In process	27,689	17,369
At cost, net of amortization	60,650	43,949

7. Fixed Assets

	Cost $	Accumulated depreciation $	Net $
		[In thousands]	
1998			
Furniture and fixtures	2,777	1,024	1,753
Equipment	6,028	4,081	1,947
Computer equipment	2,581	1,174	1,407
Leasehold improvements	3,116	1,748	1,368
	14,502	8,027	6,475
1997			
Furniture and fixtures	2,965	760	2,205
Equipment	5,189	3,379	1,810
Computer equipment	1,118	701	417
Leasehold improvements	2,776	1,414	1,362
	12,048	6,254	5,794

8. Other Assets

	1998 $	1997 $
	[In thousands]	
Non-interest bearing demand loans to employees to purchase houses for their own occupancy, due over the period to 2004 and collateralized by pledges of the houses	377	426
Investment in the animation cable channel, TeleTOON, accounted for by the equity method	880	600
	1,257	1,026

9. Bank Indebtedness

The Company has operating lines of credit, subject to an annual review, totaling $81,000,000 including US$17,000,000 denominated in US funds, which are collateralized by charges on all the assets of the Company. Amounts drawn under these lines are payable on demand and bear interest at rates varying from prime bank rate [6.75% at November 30, 1998] to prime plus 0.5%. The US$17,000,000 line has been replaced by the US$20,000,000 revolving credit facility described in note 19.

The long-term debt existing at November 30, 1997 bore interest at 4.02% and was repaid on February 6, 1998.

10. Capital Stock

Authorized

On May 4, 1998, the Company subdivided the existing Multiple Voting Shares and Subordinate Voting Shares of the Company on a two-for-one basis, so that a holder of shares received two shares for each share held at the time of the split. In addition, the Multiple Voting Shares of the Company were redesignated as "Variable

Multiple Voting Shares" [also known as Class A shares] and the Subordinate Voting Shares of the Company were redesignated as "Limited Voting Shares" [also known as Class B shares]. The Class A and Class B shares are mandatorily or optionally convertible one into the other under certain conditions, on a one-for-onr basis. Except for voting and conversion rights with respect to dividends, the Class A and Class B shares have the same rights.

Voting rights

The holders of Class A and Class B shares are entitled to receive notice of, to attend, and to vote at, all meetings of shareholders. At all such meetings, the holders of Class A shares are entitled to ten votes per share [or such greater number of votes required to maintain the overall voting rights of the Class A shares at a constant level of 70.8% of the votes attaching to both classes of shares, notwithstanding any subsequent increase in the number of outstanding Class B shares] and the holders of Class B shares are entitled to one vote per share.

The authorized capital of the Company throughout the 1996, 1997 and 1998 fiscal periods was as follows:

An unlimited number of:

Non-voting Preferred Shares, issuable in series, the characteristics of which are to be determined by the Board of Directors

Class A shares

Class B shares

Issued

	Class A	Class B	$
Balance, November 30, 1995	6,523,792	13,197,278	34,401,000
Issue pursuant to the prospectus dated July 3, 1996 less issue costs [net of income taxes of $1,452,000]	–	4,660,000	57,166,000
Issue pursuant to the acquisition of film libraries	–	545,000	8,212,000
Issue pursuant to the exercise of options	86,750	266,850	1,831,000
Balance, November 30, 1996	**6,610,542**	**18,669,128**	**101,610,000**
Issue pursuant to the prospectus dated September 29, 1997 less issue costs [net of income taxes of $3,397,000]	–	6,100,000	137,624,000
Issue pursuant to the acquisition of the Carson-Dellosa Group	–	930,570	22,150,000
Issue pursuant to the exercise of options	4,650	203,100	2,007,000
Conversions from Class A to Class B	(148,800)	148,800	–
Balance, November 30, 1997	**6,466,392**	**26,051,598**	**263,391,000**
Issue pursuant to the acquisition of HighReach Learning Inc.	–	422,000	10,282,000
Issue pursuant to the exercise of options	13,150	178,600	2,021,000
Conversions from Class A to Class B	(219,100)	219,100	–
Balance, November 30, 1998	**6,260,442**	**26,871,298**	**275,694,000**

10. Capital Stock [Continued]

Employee stock option plan

The maximum number of Class B shares which have been authorized for the granting of options is 2,500,000. The options vest at the rate of 20% at the time of granting and 20% per annum over the following four years. As at November 30, 1998, the following options are outstanding:

Number of options		Exercise price	Expiry date
Class A	Class B		
–	261,900	$6.50	July 11, 2000
–	8,000	$8.19	October 2, 2000
–	182,100	$11.00	April 28, 2001
–	24,000	$14.50	July 29, 2001
–	244,800	$17.00	December 29, 2001
–	171,400	$16.00	May 14, 2002
–	411,600	$23.00	September 8, 2002
–	210,250	$25.50	June 26, 2003
420,000	420,000	$2.75	September 1, 2003
420,000	1,934,050		

11. Financial Instruments

The market values of all of the Company's financial assets and liabilities were approximately equal to their carrying value at November 30, 1998 and 1997 due to the short-term nature of these instruments

12. Revenues

Revenues include the following:

	1998 $	1997 $	1996 $
		[In thousands]	
Federal refundable tax credits	6,783	5,856	3,693
Quebec refundable tax credits	11,461	10,746	8,531
Government production investments	3,241	6,043	876
Interest	4,631	2,802	1,520

13. Provision For Income Taxes

Variation in income tax rate

	1998 %	1997 %	1996 %
Combined basic Canadian federal and provincial income tax rate	36.9	36.9	36.9
Increase (decrease) in the income tax rate resulting from:			
Manufacturing and processing profits deduction	(1.2)	(1.1)	(6.0)
Income tax surcharge	1.4	1.4	1.1
Gift of Canadian cultural property	(1.4)	(3.4)	(5.1)
Difference in tax rates of foreign jurisdictions	(4.0)	–	–
Miscellaneous	0.5	(1.9)	0.8
	32.2	31.9	27.7

14. Earnings Per Share

Earnings per share is calculated based on the weighted average number of shares outstanding.

Fully diluted earnings per share is calculated based on the weighted average number of shares that would have been outstanding had all of the stock options outstanding at the year-end been converted into Class A and Class B shares on the later of the date of issuance and the beginning of the fiscal period. Interest of $ 775,347 [1997 – $426,000; 1996 – $251,000], net of income taxes, has been imputed at the rate of 5% [1997 – 4%; 1996 – 5%] per annum on the funds which would have been received had the options been exercised.

15. Contractual Obligations

The minimum rentals payable under long-term operating leases with third parties as well as a company owned by two of the Company's directors, exclusive of certain operating costs for which the Company is responsible, are as follows:

	Third Parties $	Related $
	[In thousands]	
1999	1,361	1,318
2000	1,249	1,318
2001	1,100	1,318
2002	800	946
2003	196	203
2004	135	203
	4,841	5,306

Rent expense included in selling, general and administrative expenses is as follows:

	1998 $	1997 $
	[In thousands]	
Third parties	1,587	419
Related	945	483

16. Segmented Information

The Company's main business segments are entertainment and education. Results of operations for each segment are as follows:

	Production $	Education $	Total $
		[In thousands]	
1998			
Revenues	106,082	44,896	150,978
Depreciation and amortization	2,431	3,221	5,652
Net earnings	19,129	2,703	21,832
Total assets	262,204	127,028	389,232
Capital expenditures	1,088	959	2,047
1997			
Revenues	80,689	12,989	93,678
Depreciation and amortization	2,402	824	3,226
Net earnings	12,185	686	12,871
Total assets	299,814	80,567	380,381
Capital expenditures	1,129	208	1,337

The entertainment segment operates mainly in Canada and exports to the United States and other countries. The education segment started with the acquisition of the Carson-Dellosa Group and operates mainly in the United States. Entertainment revenues derived from export sales are as follows:

	1998 $	1997 $	1996 $
		[In thousands]	
United States	23,137	19,029	17,236
Other	44,020	21,522	12,014
	67,157	40,551	29,250

17. YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

18. Additional Disclosures Required Under U.S. GAAP

Deferred income tax liabilities under US GAAP would comprise the following:

	1998 $	1997 $
	[In thousands]	
Income tax deductions in excess of (less than) accounting expenses are as follows:		
Depreciation and amortization	(378)	(109)
Share issue costs	(2,589)	(3,832)
Film revenue recognition	4,855	5,477
Goodwill	486	208
Intercompany profit elimination	(270)	(226)
	2,104	1,518

In addition, under US GAAP, the carrying value of the acquired film libraries as well as the deferred income tax liability would be increased by $3,481,045 [1997 - $3,674,000] and the statement of earnings would disclose advertising expense of $4,622,758 [1997 - $1,209,000] separately.

disclosure issue, only

Significant components of the provision for income taxes are as follows:

	1998 $	1997 $	1996 $
		[In thousands]	
Current			
Canadian federal	6,101	1,226	790
Provincial	2,171	480	94
Other	1,324	246	–
	9,596	1,952	884
Deferred			
Canadian federal	289	2,941	1,618
Provincial	14	927	740
Other	472	204	–
	775	4,072	2,358
Total	10,371	6,024	3,242

With respect to the statement of changes in financial position, the change in bank indebtedness would be presented as a financing activity under US GAAP. In addition, the portion of the acquisition price of acquired businesses, relating to the issue of shares, would be subtracted from the captions, "Issue of capital stock", "Business Acquisitions" and "Acquisition of film libraries". Cash provided by (used in) financing activities would have been ($31,673,000) [1997 - $176,550,000; 1996 - $60,925,000], and cash provided by (used in) investing activities would have been $71,072,000 [1997 - ($173,765,000); 1996 - ($45,278,000)].

Earnings per share

As required, the Company adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No.128. The following table sets forth the computation of basic and diluted earnings per share:

	1998	1997	1996
	[in thousands, except shares and per share amounts]		
Numerator for basic and diluted earnings per share			
Net income	21,832	12,871	8,461
Denominator:			
Denominator for basic earnings per share - weighted average shares	32,825,629	26,738,682	21,824,086
Effects of dilutive securities:			
Employee stock options	1,231,156	888,224	1,043,482
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	34,056,785	27,626,906	22,867,568
Basic earnings per share	$0.67	$0.48	$0.39
Diluted earnings per share	$0.64	$0.47	$0.37

Stock-based compensation

In accordance with Canadian GAAP and US GAAP [under the Accounting Principles Board Opinion No. 25], the Company does not recognize compensation expense for stock option grants in the statements of earnings as the market price of the underlying stock on the grant dates does not exceed the exercise price of the options granted. Had compensation cost for these stock options been determined consistent with SFAS No. 123, the Company's pro forma earnings per share would have been as follows:

	1998	1997	1996
	[in thousands, except earnings per share]		
Net earnings per financial statements	21,832	12,871	8,461
Pro forma stock compensation expense, after a nil income tax effect	(1,343)	(1,072)	(207)
Pro forma net earnings under US GAAP	20,489	11,799	8,254
Pro forma basic earnings per share under US GAAP	$0.62	$0.44	$0.38
Pro forma diluted earnings per share under US GAAP	$0.60	$0.44	$0.38

18. Additional Disclosures Required Under U.S. GAAP [Continued]

The Company has utilized the Black-Scholes option valuation model to approximate the fair value of options granted, assuming a weighted average option life of 2.5 years, risk-free interest rates ranging from 3.94% to 5.41%, a dividend yield of nil and a volatility factor of 32%. The weighted average fair value of options granted is estimated at $6.45 per share in 1998 [1997 – $4.59; 1996–$3.05].

Due to the vesting characteristics of these options, the above pro forma adjustments for SFAS No. 123 are not likely to be representative of the effects on pro forma earnings per share in future years.

The continuity of the outstanding stock options is as follows:

	1998		1997	
	Class A	Class B	Class A	Class B
Balance, beginning of year	433,550	1,911,200	438,200	1,201,500
Granted	–	212,250	–	942,600
Exercised	(13,150)	(178,600)	(4,650)	(203,100)
Cancelled	(400)	(10,800)	–	(29,800)
Balance, end of year	420,000	1,934,050	433,550	1,911,200

New developments

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income". Comprehensive income is the change in equity of a business during a period from transactions and other events from non-owner sources [i.e. normal business transactions -- excluding shareholder related transactions]. This statement requires that all items recognized under accounting standards as comprehensive income be classified as such by their nature in a financial statement. As required, the Company will adopt this standard upon its applicable effective date in fiscal 1999.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". This statement requires that business enterprises report in their footnotes certain revenue, expense, profit and asset information by operating segment and other related disclosures. Operating segments are components of an enterprise whose performance is regularly reviewed by management. The Canadian Accounting Standards Board and the FASB co-operated in developing these standards and the two boards reached the same conclusions. As required, the Company will adopt this standard upon its applicable effective date in fiscal 1999.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement requires all derivatives to be recorded on the balance sheet at fair value and provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The Company is studying the application of this new statement but has not yet determined its impact. As required, the Company will adopt this statement upon its applicable effective date in fiscal 2000.

19. Subsequent Events

On January 10, 1999, the Company entered into a definitive agreement to acquire, for a cash consideration of US$40,200,000, EduSoft Ltd., a developer, publisher and distributor of multimedia education software products, located in Israel. The closing is subject to certain conditions and approvals.

On January 25, 1999, the Company completed an agreement with its banker for a US$40,000,000 reducing revolving term credit facility bearing interest at the LIBOR rate plus 1.25% per annum and a US$20,000,000 revolving credit facility bearing interest at the LIBOR rate plus 0.60% per annum. Both these facilities are secured by a charge on the Company's assets.

1998 Awards

CINAR Corporate Awards

"Outstanding Entrepreneurs of the Year" 1998
Perform Inc.
Micheline Charest & Ronald A. Weinberg

"Outstanding Achievement Award" 1998
Entreprendre Magazine
Micheline Charest

Women in Entertainment - International
Hollywood Reporter Magazine
Micheline Charest

13 Most Powerful Teams in Animation
Animation Magazine, 13th Anniversary Issue

CINAR Product Awards

ARTHUR™

Parenting Magazine Video Magic Award 1998

Prix Gémeaux 1998 (Academy of Canadian Cinema & Television)
Category: Best Sound

The Alliance for Children and Television's Awards of Excellence 1998
Category: Best Animated Program (English)

Worldfest Houston 1998
Bronze Award Winner, TV Series – Family/Children Category

NATAS Daytime Emmy Awards 1998
Children's Animated Program

THE BEST BAD THING™

LES 400 COUPS 1998
- Best Film
- Kirin Kiki, Best Actress

CAILLOU™

Prix Gémeaux 1998 (Academy of Canadian Cinema & Television)
Best Animated Series

The Alliance for Children and Television's Awards of Excellence 1998 (French)
Best Animated Pre-school Program

EMILY OF NEW MOON™

13th Gemini Awards (Academy of Canadian Cinema & Television)
- Sheila McCarthy, Best Performance by an Actress in a Continuing Leading Dramatic Role
- Kris Lemche, Best Performance by an Actor in a Featured Supporting Role in a Dramatic Series

The Alliance for Children and Television's Awards of Excellence 1998
Drama

THE INTREPIDS™

Le Lys de la paix - 1998 Positive Entertainment Alternatives For Children Everywhere (P.E.A.C.E.)
Pacifist Program 1997-98

THE SLEEP ROOM™

13th Gemini Awards (Academy of Canadian Cinema & Television)
- Best Mini-Series
- Anne Wheeler, Best Direction in a Dramatic Program or Mini-Series
- Diego Matamoros, Best Performance by an Actor in a Featured Supporting Role in a Dramatic Program or Mini-Series
- Best Sound in a Dramatic Program or Series
- Donald J. Mowat, Outstanding Achievement in Make-Up Award

Banff Television Festival 1998
Special Telefilm Canada Award

WIMZIE'S HOUSE™

Parents' Choice Awards 1998
Recommended Seal

THE WHOLE OF THE MOON™

1998 15th Children's & Youth Film Festival In Malmö -Buff (Sweden)
Best Film, International Section

The Wild Goose Product Awards

Dr. Toy - 10 Best Children's Products for 1998
Haunted Science

Dr. Toy - Best Children's Vacation Products for 1998
Newton Uncovered - Crash and Burn Chem

Top 10 Educational Kits - *The Education Source*
Slimey Chemistry

HighReach Learning Product Awards

Director's Choice Award
The Red Umbrella Magazine

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